SECURITIES MARKET—AND FIRST QUARTER BUSINESS OUTLOOK ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

COMPANIES TO RECEIVE MAJOR DEFENSE ORDERS
By Allen Smythe

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President Eisenhower waves to crowds at inaugural parade.

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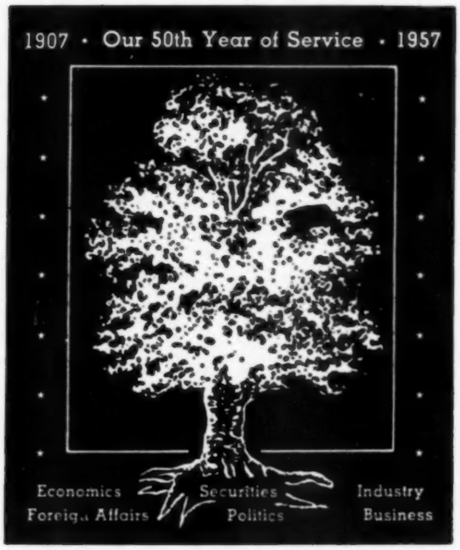
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WELFARE STATE? . . . In President Eisenhower's annual Economic Report, as in the Budget and State of the Union messages, there are strong implications of a gradual movement toward the Welfare State. It seems paradoxical that this country should be gravitating toward socialism, at a time when Communism is moving away from a monolithic state toward national communism, which could eventually lead to democracy and individual enterprise. This has been the pattern of transition among autocracies through the ages.

In our own lifetime, sitting on the side lines, we have observed that the Totalitarian State means a leveling-down process—the gradual wiping out of the middle class—and the creation of a new aristocracy, that of the bureaucrats.

At the same time, we have noted the failure of socialist societies everywhere. Even the most benevolent and enlightened have suffered from bureaucratic controls. And in the light of the unmatched achievements of our free-enterprise system—in personal welfare and good living for our citizens—we are led to wonder, – what is up – and where do we go from here?

PRESIDENT EISENHOWER AND MR. DULLES . . . Is the President's loyalty so great to Mr. Dulles that he chooses to ignore the lack of confidence expressed in many quarters and now in Congress about his Secretary of State's conduct of foreign affairs?

This situation is so well known to the nations abroad that it has impaired the usefulness of Mr. Dulles to a marked degree. In fact, his relations with the heads of various governments are not likely to produce the cooperation that we need in the light of the problems we are facing in the Middle East and elsewhere. Problems, by the way, that we created when we caused Britain and France to withdraw and to permit Colonel Nasser to dictate the terms for Suez. Moreover, it intensified adherence to nationalism by various Arab states, most of which are actually not in agreement with a policy which is depriving them of millions of dollars daily in oil revenues.

It is evident it is this feeling about Mr. Dulles in Congress that is responsible for the questioning attitude toward the President's Middle East Program —a "family quarrel" that is doing us no good abroad.

It can be clearly seen from the above that we have much to lose by retaining Mr. Dulles in office, and that a new Secretary of State at this time might give us a psychological weapon of the greatest value in dealing with foreign governments in Europe, as well as in the Middle East. We are surprised that the President has so far been unwilling to recognize the harm to our diplomatic prestige in the general feeling against Mr. Dulles, and to accede to it gracefully

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

SPEND AND SPEND, TAX AND TAX . . . The philosophy of Harry Hopkins did not die with him. It has become the doctrine of a new-old school that preaches we need never have another depression, if only we are prepared to spend and spend to prop up the economy.

We recall, too, the legend of the 1920's that business cycles had been controlled, and that another depression was impossible. This was preached by some mighty important people.

Present-day exponents of the perpetual boom are blithely traversing a new path to tomorrow's new age with yesterday's road map, unmindful that this reckless joyride could bang up the old vehicle—but good! If these fast-moving advocates of spending your way to Utopia would only slow down long enough, they might stop to learn what happened to French social security when the franc was devalued 80%. The peoples of other lands also learned to their sorrow—and bankruptcy—that there is no security, social or otherwise, once inflation takes over and currencies become mere scraps of paper.

True prosperity never stems from Government spending—it only produces waste. Secretary of the Treasury Humphrey spoke wisely when he warned that spending at the current rate could lead to a depression that would "curl your hair!"

The people must be told the truth. We have enough faith in the common sense of the American people to believe that if the realities of the situation were hammered home to them in the language of Mr. Humphrey, they would understand the danger and be ready to cooperate with the Government fully when they recognize that a sound economy and a sound dollar are their greatest security.

WOULD THEY LIKE IT IN RUBLES? . . . Understanding the mental processes of Arab leaders is a challenge worthy of the wisdom of a Solomon. In recent days the Egyptians have moved toward expropriation of foreign banking and insurance properties, while telling folks abroad that they look forward to an influx of foreign capital to develop their economy.

This might seem like a bad joke but for the fact that Jordan, another Arab country, has asked the United States for a *guarantee of* $30 *million a year in economic aid with no strings attached.* This is the same Jordan that seeks to terminate the treaty for the maintenance of British military and air bases, for which she is receiving an annual subsidy from that country amounting to about $33 million yearly.

In addition to her demands on the United States to replace this yearly British subsidy so she can terminate the treaty with Britain, she is also going through the process of making what looks like a sham deal for another subsidy of the same size with Egypt, Syria and Saudi Arabia, in what appears to have been inspired and engineered by the conniving men in the Kremlin.

Glib promises by Cairo and Damascus that they will provide Jordan with a subsidy of some $36 million per year for the next 10 years are clearly a sham, considering the state of their finances. They are unquestionably expecting to collect this money from the United States. In fact, King Saud of Saudi Arabia is now en route to Washington to ask for a loan.

This, although oil-rich Araby has only to break with the Egyptian dictator, *who has kept them from marketing their oil freely,* to be assured of an income that would make that region quite well off and independent financially. Instead, King Saud is playing Nasser's game and expecting us to foot the bill. This is so obvious that we are certain Congress has already noted it.

EXPANSION PROGRAMS "DEFERRED" . . . When companies of the stature of General Motors and General Electric put off planned capital expenditures (not a few companies have said flatly they are cancelling), they are bound to raise numerous questions in the minds of people.

Inevitably, folks are bound to ask whether many of our corporations, notably GM and GE, (after several years of costly expansion) haven't found that their productive capacity already is sufficient for present, and even foreseeable demand. Another question that is bound to arise is whether these corporate giants doubt that the record-long business boom can continue indefinitely.

Still another question, to which folks might like an answer, is whether corporate profit margins, shrunken by the wage-price-cost spiral, justify paying 5% for plant expansion that may earn only 4%.

ON THE SPOT . . . Up to now a disillusioned and cynical world has viewed the United Nations as an impotent body and shrugged off its decisions with disdain. But the Israel-Egyptian crisis is quite another matter—for it has aroused great partisanship, and, in the American way, regardless of religion, people of this country are rooting for a square deal for that little nation. This is because:

—Egypt has frankly declared that she is at war with Israel—that it is the intention of the Arab states to wipe out and push that little country into the sea.

—That Israel therefore has been clearly acting in self-defense while under a state of war—and cannot be accused of aggression.

With these two facts in mind, there is no question that Israel should receive the assurance she demands before she withdraws her troops from Gaza and from the tip of Sinai. She has a right to insist on the end of the border raids—that the killing of her people should be stopped—that her shipping should not be bottled up—and her economy hamstrung by the meanness of her neighbors.

The United Nations just cannot afford an unjust decision against Israel under these circumstances, especially since she has shown no capacity or will to enforce her decisions on the great powers, including Russia and the criminal government of Hungary —has thus far given way to all Egyptian and Arab demands, and has permitted India to absorb Kashmir just recently without a protest. Maybe that's what Russia's Marshal Zhukov was visiting India about.

RENT CONTROLS . . . Whatever merit there may have been in rent controls during war-time, it hardly seems equitable that more than 11 years after the end of World War II state legislatures should be imposing curbs on property owners. Yet in New York State a mere proposal to ease rent controls has stirred a political conflict. There is as much justification at this late hour for imposing controls on food and clothing as on shelter. And, of course, there is none.

It would seem that, for sheer durability, there is nothing to match a temporary control, lest it to be a temporary tax.

As I See It!

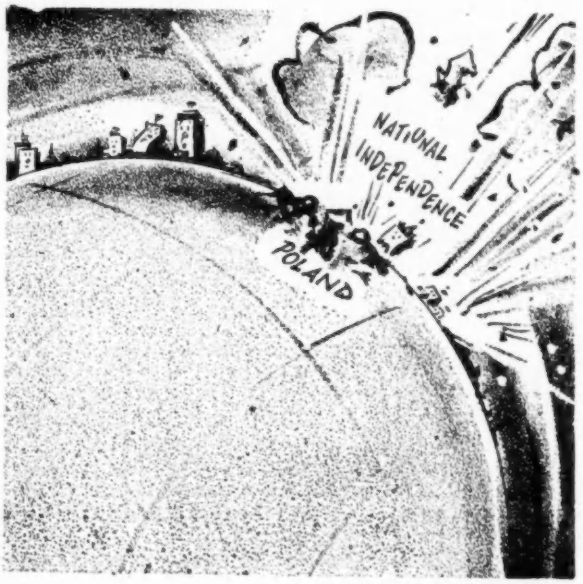
By JOHN CORDELLI

SHIFT IN COMMUNIST POWER?

Future historians may well look upon the recent visit of Chou en Lai to Moscow and Eastern Europe as a turning point in the history of world communism. It may mean that the power vacuum created in the satellite states by the loosening of the bonds with Moscow, may be filled by Red China.

It is clear that Russia's turning to Peiping in this critical jucture is significant of her hate and emotional revulsion against Tito, whom she blames for encouraging the revolts in Eastern Europe. But, in calling in Red China, Russian leaders seem to have ignored the warning of the old Bolsheviks, that the rebuilding of a great Chinese state was a danger of tremendous proportions to the Russians – because of her vast population, her strategic geographical position, her undeveloped natural resources, the skills of her people—and the tendency to rapid population growth.

While China's affiliation with Moscow has been close, an independent national status has been maintained. In fact, China expressed sympathy with the Hungarian revolt in the early stages, although later they withdrew their approval in the interest of maintaining communist solidarity.



Partymiller in The York Gazette & Daily

"New Explosion"

On the one hand, Chou en Lai gained the respect of all the new Nationalist Communists in Western Europe by his public endorsement of their basic principle that "not all roads to socialism need be alike." And at the same time managed to retain the confidence of Moscow by his denunciation of all suggestions that would lead to the break up of the Communist bloc.

He has therefore made himself the ideal man to act as intermediary between Moscow and the rebellious satellites. And it may be assumed that he was called in to act as intermediary between Moscow and Warsaw, for he first went to Moscow presumably to receive his briefing, and then to Warsaw to act as go-between.

The question is whether this wily communist leader will be satisfied with the assignment of running interference for Moscow in the other communist countries. The indications are that he is after much more. When he arrived in Warsaw just before the all-important elections, he gave his full public support to Wladislaw Gomulka, and may have been helpful in securing the victory of National Communism for Poland's leader in his life-and-death struggle against the Moscow wing of the party.

And the latest news from Warsaw, that Gomulka was dissolving collectivism on the farms, would seem to indicate that he was seriously moving toward a greater democracy for Poland. This would be very heartening indeed, for any leader interested in the welfare of his people rather than maintaining a dictatorial stranglehold of life and death over them, would recognize that individual initiative is the only road to economic well being for the nation as a whole.

Moreover, it was interesting to note that during Chou en Lai's visit to Hungary, his pointed public remark was that the recent uprising had been "crazy". This makes sense only if interpreted to mean that it was ill-conceived, ill-organized and ill-timed. Had Chou en Lai wanted to condemn the basic principle of any uprising against a Moscow puppet regime, he would have certainly used different terms.

Even more significant was his support of the opposition of Poland and other Communist countries to a revival of the old Cominform (the former Comintern). In its present predicament Moscow would obviously have liked to re-establish the organization which had once given it complete control over every Communist movement on earth. But when China's opposition became clear, the idea was quietly shelved.

If all this means that Chou en Lai is laying the groundwork for an eventual shift of the fountainhead of Communism from Moscow to Peiping, we should be alert to watch each step to know what it is likely to lead to for us, as well as the rest of the Western nations.

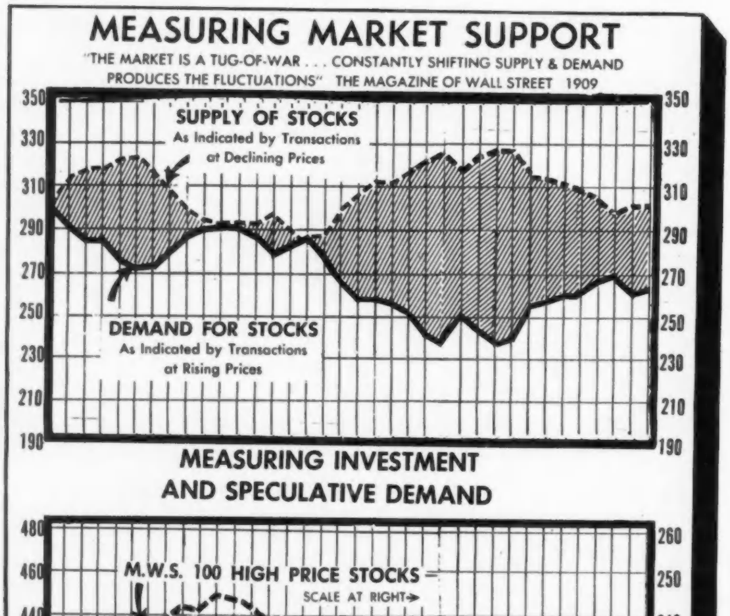
In any case, it is bound to mean an end of the gigantic monolithic structure established by Stalin, and its replacement by a much looser federation of countries practicing the principles of National Communism. This would not greatly lessen the danger, as it still means government with the power of life and death over its people, and would therefore continue to appeal to men of overweening ambition whose dangerous lust for power would embroil one country after another.

Securities Markets—And First Quarter Business Outlook

The stock market is on the defensive, reflecting investment uncertainty about the general business prospect and the direction of the next move on credit policy by the monetary authorities. The bond market has fared relatively well so far in 1957. Justification for adding to over-all holdings of common stocks at this stage cannot be cited.

By A. T. MILLER

In so far as the daily averages can tell the story, the stock market remains without a sustained, clear-cut trend either upward or downward, in the case of the industrial and utility lists, as has been so since last summer. The pattern for rails is more negative, and the current technical evidence is inferentially bearish, even though not decisively so. This average now shows a sequence of declining tops and bottoms since last May. It closed last week at a new 1956-1957 low of 148.96, after previously meeting support just above 150 on several downside tests within the last four months. However, it has not yet decisively broken its extreme (intra-day) low recorded November 29.



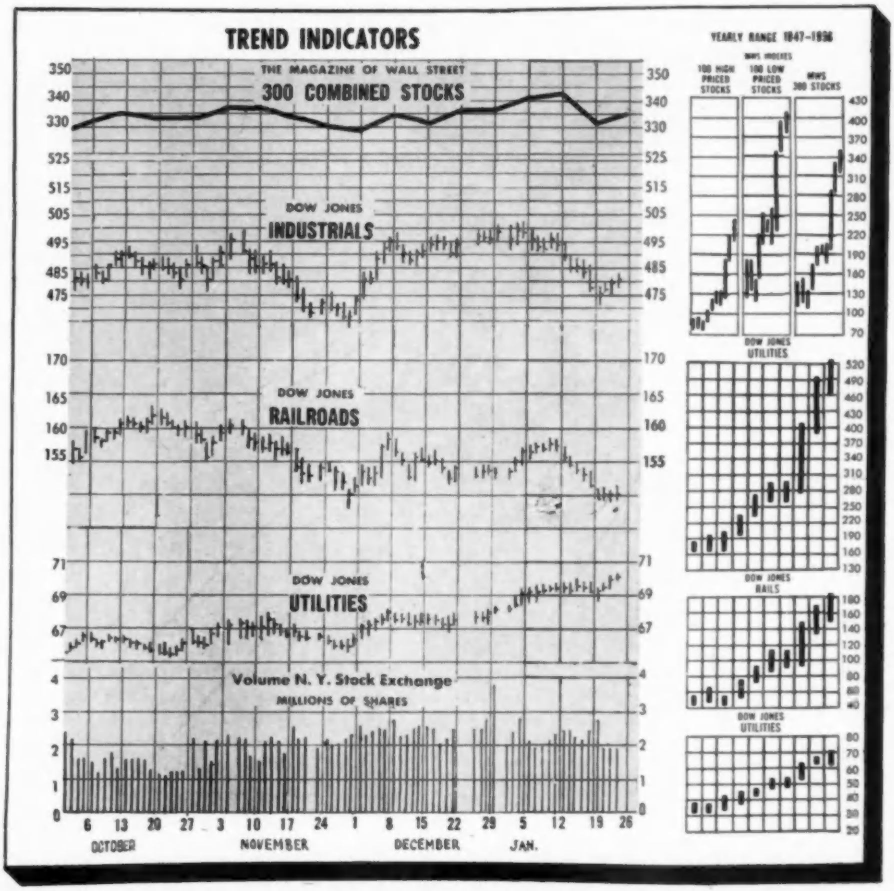
Over the past fortnight the net movement was downward materially for rails, and moderately for industrials; and that has also been the story since the turn of the year. For both averages, the best early-January levels fell short of their December rally tops. But strong support for the industrial average at the 466-468 level is still indicated. Over the past 12 months or so, four sell-offs have halted around that point. It has not been closely tested on the recent unsatisfactory performance up to late January, but the distance involved is so small that it could be negotiated in short order. The average fell a maximum of about 15 points in the January 18 and January 21 trading sessions, to an intra-day low of about 470, before rallying to close at 479.90.

Allow For Further Test

That was followed by a three-day rally in closing prices, totalling 5. points, through Thursday of last week but with trading volume contracting in testimony to the fact that investors and traders see neither need nor merit in bidding up much for stocks. Over half of the rebound cited was cancelled in the week's final session, leaving the average around 478. That is a seemingly respectable 10-12 points above the support level—by now a rather crucial one—heretofore cited; but that number of points might readily be travelled in a couple of bad days, since it amounts to less than 2½%. The average's range, since its bull-market top was recorded, has been about 55 points or less than 11%. It now stands only a shade above the lower one-fifth area of the trading range charted since last summer.

Contrasting with this, the utility average, reflecting improved demand for both electric power and natural gas stocks, moved up over the last fortnight, extending a persistent, almost unchecked, betterment since mid-December, as well as the earlier more irregular recovery from the October reaction low. The latter was 64.93, marking a decline of roughly 8.8% from bull market high of 71.17 attained last August. By last week's close the average was back to 70.68, less than one half of a point below the old top. You can say

hat it has been aided recently by a relatively sharp upturn in the bond market, and consequent paring of bond yields at least for the time being. However, the recovery by the utility average, as heretofore noted, dates from last October 1 and the bulk of improvement occurred while bond yields were still rising.



Utilities Show Strength

In line with our own thinking, investors have evidently been putting new money, and shifting some old money, into selected electric and gas utilities, on the reasoning that with earnings and dividends trending up — they are low-risk, fair-yield stocks offering potentials for at least moderate appreciation on a longer-term basis, while promising meanwhile to hold up better than industrials or rails. Barring a renewed early slump in bond prices, the chances seem better-than-even that the utility average will work into new high ground in no great time, perhaps soon. Considered separately, the natural gas group has already done so. Most electric utilities remain moderately under their best 1956 levels; but recently there has been a scattering of new highs attained by a minority of individual issues, probably foreshadowing more new highs ahead in this favored section.

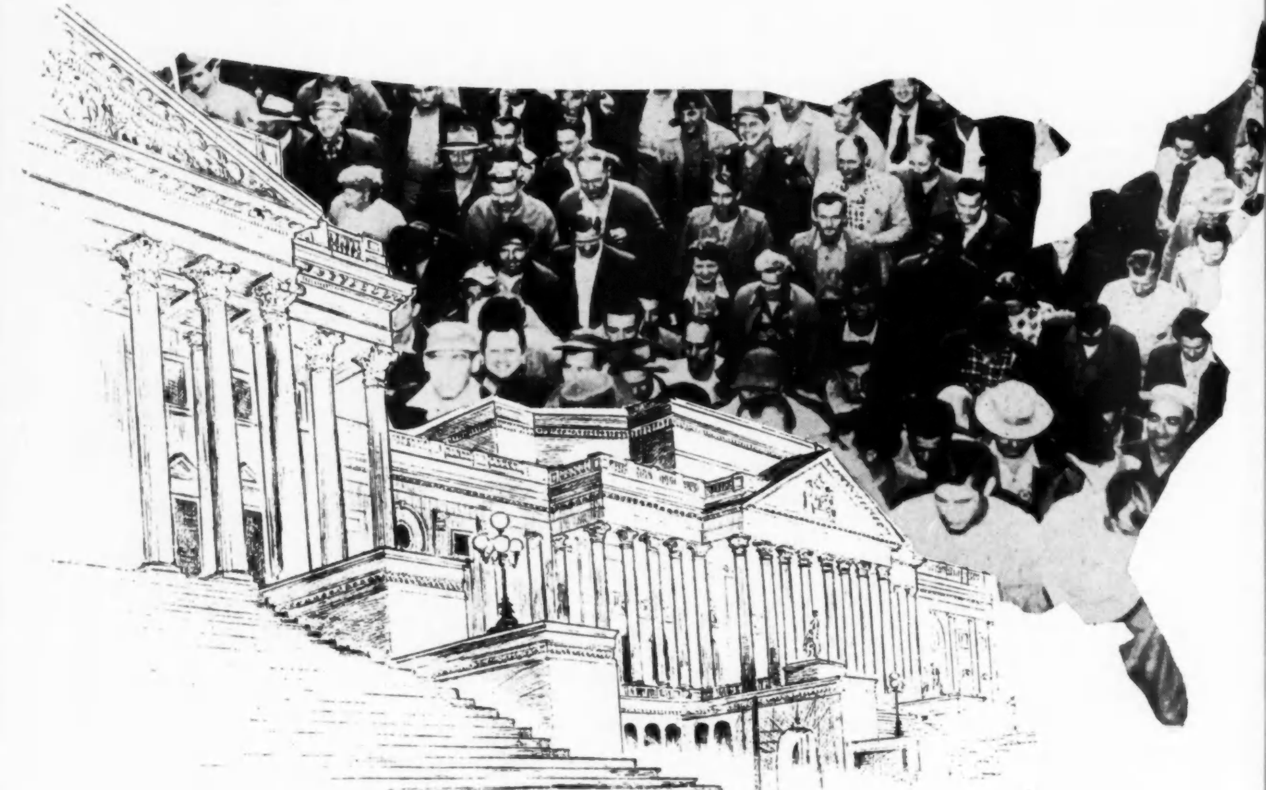
This is a good time to "wait and see", while reserving opinion about a number of things including the bond market, trends of business orders, production and trade; Federal Reserve credit policy, possible fresh disturbance or tension in Middle East developments, and a possible, if not probable, additional test of the long-standing 466-468 support level heretofore maintained by the industrial average.

It is possible that the bond market has put its low point behind; but the rally lost some steam in recent days, and it is conjectural whether it can be extended. The firming in utility shares can be credited to a previous over-sold position, and to an accumulation of reinvestment funds seeking employment mostly in the first three weeks of January. Since the money was waiting and the heavy January offerings of new corporate and municipal bonds were liberally priced for excellent yields, the response thereto was good. The consensus is that demand for long-term capital funds will continue in excess of savings for at least some months to come. If that is right, it cannot be bullish for the bond market. If wrong, that would mean some business easing ahead and a shift in Federal Reserve credit policy from anti-inflationary to anti-deflationary, which would be bullish for the bond market; but bad for stocks.

We surmise Federal Reserve will probably tread water a while, perhaps at least until spring, deferring any further boost in rediscount rates until it can get better idea of direction of the "wind", meanwhile preventing much more seasonal easing in short-term interest rates by mopping-up open-market operations. Only time can tell whether Reserve has already kept its foot on the brake too long. Although evidence is tentative, our impression is business activity has not shown January "zip" many had expected, raising a question whether we are already in a flattening-out.

Market sentiment leans to the cautious or bearish side. Few professional advisers think the industrial or rail averages can rally more than modestly. Most look for the 466 level of the industrial average to be broken by anywhere from 25 points to 80 or so points within 1957, and perhaps with start of the slide not long delayed. We concede it is a bit uncomfortable to have so much company on the cautious side. Yet, the viewpoint continues to look logical to us. In such generalities as business, earnings, dividends and yield factors, we do not see bull-market ammunition. We see fewer and fewer favored special-situation stock groups that appear subject to further market exploitation at current levels. We see too few stocks we can recommend with confidence, too many that look over-priced or otherwise unattractive. So we remain cautious and conservative. And we repeat: this is a good time to "wait and see" for a while.

—Monday, January 28.



By OLIVER NORTON

Appraising the President's Budget

—A Study of the President's Message
—With Government Debt and Taxes at Peril Point

A Martian observer of the American economic scene over the past several weeks might well have wondered whether the nation's capital had not been transformed into Alice's Wonderland. Words—not to mention figures—in and around Washington appeared to have acquired very flexible meanings indeed.

Largest Peace-time Budget

Early in January, President Eisenhower, in his State of the Union message to Congress, argued persuasively that inflation was among the grave threats facing the nation, and that it needed to be fought resolutely, across a broad front, by Government, business and consumers alike. Late in January, in his Economic Message, he invoked the spirited cooperation of "business and labor leadership" to forestall further inflation.

But sandwiched between these exhortations to man the defenses of the dollar, he submitted to the Congress the largest peace-time Federal budget on record; a budget exceeded only by the Korean-war year of fiscal 1953, and three fiscal years of the World War II holocaust. The size of the budget was enough to provoke the Administration's own Secretary of the Treasury, George M. Humphrey, to plead with Congress for reductions, and to set up murmurs for economy even among notoriously free-spending Democratic members of the Congress. And to add an ominous after-note to an ominous present, the requests for appropriations of funds strongly suggest that spending levels for the Federal government will rise still higher in fiscal 1959 and ensuing years.

All of this may seem to be a paradox of American politics that is beyond all rational explanation. Quite the contrary is the case.

The 1958 budget is a deplorable document in many ways. But it springs, in some measure, from attitudes of the American people that have grown ingrained after a decade of careless spending. To a degree, in fact, the spending level spelled out in the budget is a literal heritage of the past: Much of the outlays involved are unavoidable under continuing programs passed by the Legislature under the Truman Administration, and even the Roosevelt Administration. In large measure, too, the budget reflects the exigencies of a "cold war" which may yet turn out to be one of the truly crucial periods in human history. And to a degree it reflects the understandable yearnings of a people (who are also the electorate, be it noted) for economic security—protection against vicissitudes of chance and economic law.

Pressing On the Price Level

It would be a singularly cold critic of fiscal policy who could not find himself sympathetic with some of the pressures which have pressed the Federal budget to its present height. But sympathy is often a dangerous guide. The fact seems to be that a mammoth Federal budget has been offered the Congress at a time when the American price level is already headed conspicuously upward, and the effect of the budget can only be to augment the uptrend. While this is far from inflation in the European sense of "galloping" inflation, it is nevertheless enough to raise legitimate fears over the future of the free national economy which the budget purports to serve and strengthen. The dangers of inflation need no new review here—the destruction of the incentive to save, the destruction of savings themselves, the arbitrary, inequitable redistribution of wealth effected by rising prices, the weakening of incentives to work as taxes rise higher and higher, and recapture more and more of the rewards of effort and merit. Inflation is a specific and virulent attack at the roots of a free-enterprise economy, and there is mounting evidence that without a free-enterprise economy there are no freedoms at all.

The Shape of the Budget

The fiscal 1958 budget calls for a spending level of $71.8 billion, roughly $3 billion higher than in fiscal 1957 (which ends on June 30, 1957), and about $32 billion more than the budget for the pre-Korean year 1950. It is to be financed—slightly over-financed, if we accept the very tricky accounting procedures of Federal budgeting—by budget tax receipts of about $73.6 billion, about $3 billion higher than in the preceding year and easily higher than any other year on record.

High as they are, neither the expenditures nor the receipts figure is by any means the whole story of Federal finances. Approximately an additional $15 billion will be taken in through non-budget taxes to support the wide variety of trust-fund operations conducted by the government; almost all of this amount will thence be returned to individuals (but not the same individual from which it was collected!) in the form of social security payments, retirement payments to railroad employes and employes of the Federal government, unemployed persons, workers on the national highway system, etc. Taking all cash payments to the public and all collections from the public, the government will presumably end up with a surplus of about $3 billion. In the course of generating this surplus, it will have controlled about 22% of all of the rewards for productive economic activity in the United States throughout the year.

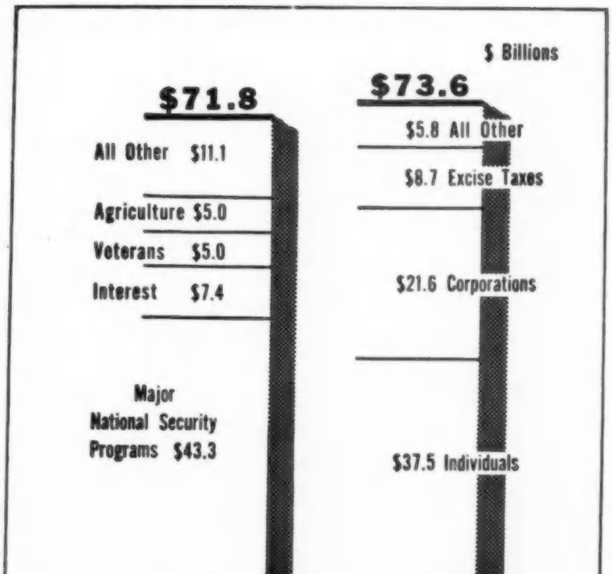
(These figures, as all others contained here, exclude the operations of state and local governments, except insofar as they are financed by Federal grants-in-aid. In the 1958 fiscal year, independent cash receipts and payments by these governments will probably amount to almost $35 billion, about another 8% of the total income flow.)

Price Of Our Defense

The bulk of the year-to-year increase in Federal spending is clearly centered in defense, which will cost $43.3 billion in fiscal 1958. (It may well cost more if prices and costs in the production of defense goods continue to rise at their current rate). Included in the amount is about $27 billion of so-called "direct defense"—the procurement, maintenance and subsistence expenses of the Army, Navy and Air Force establishments. Also included is $2.6 billion of military aid, however. This figure is no higher than in the previous fiscal year, but one may well wonder, in the light of world developments since the last budget message, whether the recipients of military aid will accurately remember from which nation's budget the aid was forthcoming.

The $27 billion direct defense figure illustrates one of the grave difficulties besetting those who attempt to reduce the spending figure to rational

THE FEDERAL BUDGET



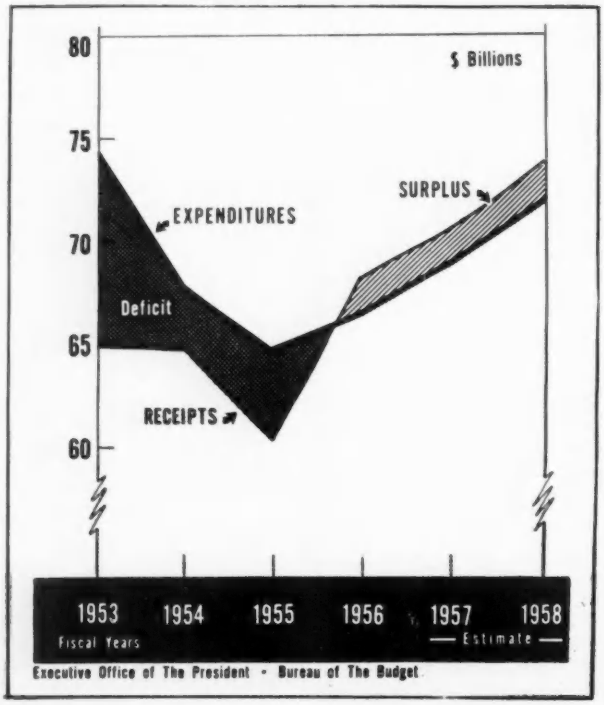
proportions. Detailed knowledge of the technical state of the defense establishment is obviously a prerequisite to intelligent criticism of the estimate: Such knowledge is largely classified, and the only people who have it are the people who added up the $27 billion in the first place. While some of the facts will eventually be placed before the Congress in executive committee sessions, defense requirements remain an essentially military matter. It can only be hoped, piously if not confidently, that the decisions leading to $27 billion were made in the light of the impact of such a figure on an economy already swelling with inflationary pressures.

Farm Relief Moves Up

Outside the defense sector, other spending programs are also headed up, and with much less apparent reason. Existing farm legislation will evidently require fully $5 billion in fiscal 1958, a minor increase of $300 million over fiscal 1957, but five times the cost of agricultural programs in the last Truman budget. The solution to the farm problem, if solution it is, appears to be more costly than the problem itself.

It will come as little comfort to most taxpayers to realize that a considerable portion of the cost represents rental payments to farmers for the guarantee that land will remain idle throughout the year in national acreage reserves! After two decades of experimentation with interference in the farm sector, no efficient, fair, administrable program has yet been worked out, and the experiments have cost dearly not only in terms of money, but in terms of international frictions (with such agricultural exporting countries as Canada), in impairment of incentives among farmers and in the immeasurable damage of setting economic class against economic class.

BUDGET TRENDS



Veterans' services will cost approximately $5 billion in fiscal 1958, a small (and almost entirely uncontrollable) increase over the current fiscal year. But it may be wondered whether veterans' services at this level are any longer an appropriate form of patriotism, or a legitimate obligation, or a needed incentive to patriotic military behavior in the future. We are, after all, becoming a nation of veterans, and the indiscriminate distribution of benefits connected with military service is rapidly becoming an adjunct of Social Security legislation (the bill for veterans' benefits is now two-thirds as great as total expenditures of the Social Security trust fund). Taxpayers and veterans are not identical groups, but they overlap so substantially, and their community of interest is so great, that efforts to reduce this growing national burden should hope for some success. Unfortunately, the efforts have not been forthcoming.

Debt and its Cost

Other items in the spending side of the budget could doubtless be commented upon at length, and opportunities for economies could be paraded almost endlessly. Hower, the requirement of economy is perhaps best illustrated by the size of one remaining budget item—the interest cost on the Federal debt. In fiscal 1958, interest charges payable to the holders of the national debt will amount to an estimated $7.3 billion—the highest on record. Currently the gross public debt, including the Federally guaranteed issues of Government corporations, amounts to about $277 billion—approximately the level prevailing at the end of the Korean war, and at the end of World War II.

In a decade of the greatest prosperity the country has ever known, the debt has remained largely unchanged. Indeed, the situation is worse than that. Because of the need to fight inflation with tools other than Federal economy, which has not been available throughout the decade, interest rates and hence interest charges on the debt have risen precipitously, and may yet rise further between now and fiscal 1958. High Government spending is thus, in a sense, perpetuating itself.

Paying for the Expenditures

In his budget message, the President requested Congress to retain tax rates at their present levels, with the possible exception of some minor tax relief for small business.

The fact that tax rates are not intended to go higher should not divert attention from the fact that they are already at levels which are virtually confiscatory. Relatively high-level income-earners who invest in corporate securities can expect to receive virtually nothing from the pre-tax earnings of corporations, (and for that reason much prefer investment in tax-exempt securities issued, of course, by government). The marginal personal rate is such that almost $10 of additional income must be earned in order to retain one. As an illustration of the impact of such rates on incentives, one might note

that a $10 home visit made by a successful doctor late in the calendar year probably yields an income insufficient to cover his cost of transportation.

Even at such rates, the tax yield of $73.6 billion is reached only by the assumption that personal incomes will swell another $10 billion and corporate profits another $1 billion or so. In a sense, of course, the inflationary effects of the budget itself more or less assure such an inflation of income. The budget thus balances itself through the machinery of inflation—a process which has an obvious paralyzing effect on the private sector of the economy.

Even with exorbitant tax rates, and even with a further inflation of the tax base, it takes some ingenious accounting to yield the modest $3 billion cash-flow surplus called for in the budget. For example, included in total income are the prospective additional receipts from a hoped-for elevation of postal rates, amounting to about $400 million. Also included are the trust-fund surplus which will be produced by the new Highway Act in its early years (in later years, it will revert to more typical Federal form, and yield small annual deficits to cancel the surplus).

But more important than these relatively minor amounts is one ponderous defect in the budget which has received much less attention than it deserves. In fiscal 1958, for the first time, the Social Security trust fund will stop growing—its income will be virtually equaled by its payout. Life insurance economists have for years looked with open horror on the absence of actuarial control over the Social Security fund; liabilities of the fund are obviously growing at a rate fantastically greater than the size of the fund itself could possibly support on an actuarial basis. Unless the Social Security tax rate rises in fiscal 1958—an unpleasant but extraordinarily probable development—accruing liability during the year will certainly exceed the fund's income. Under any reasonable accounting, this deficit in the fund would doubtless wipe out all signs of an annual surplus. To some degree, the same point might be made of other, smaller, Federal trust funds.

Capsule comment on the Budget:

Budget Expenditures: **Rise to $71.8 billion, highest since fiscal 1953, and highest peacetime spending on record.**

Budget Receipts: **Rise to $73.6 billion, assuming present tax rates and increase in postal rates and rising incomes.**

Budget Surplus: **$1.8 billion, the third small surplus in a row.**

Trust Funds: **Receipts to Federal trust funds slightly above expenditures, with gap closing fast. (Look for further rise in Social Security tax rates, to keep the Social Security trust fund from running into the red in fiscal 1959.)**

The Federal Debt: **No or little change, but slight increase (to $7.3 billion) in interest charges on the debt.**

Agriculture: **Annual cost of farm support programs rises to $5 billion, owing partly to Soil Bank payments.**

Defense: **Rises to $43.3 billion, with about $37 billion going to the Defense Department itself. (Other defense costs: Stockpiling ($400 million); military aid ($2.6 billion); Atomic Energy Commission (over $2 billion).**

Veterans' Benefits: **Up to $5 billion, a new record.**

Highways: **Being financed as a trust fund, outside the budget itself. Will show a small surplus in fiscal 1958, as old and new earmarked taxes will yield more than expenditures during the fiscal year.**

New Obligational Authority: **Requests total up to $3 billion more than in current fiscal year.**

General Government: **In aggregate not substantially higher (the big increases are in defense and farm programs). But contains many increases and offsetting decreases, both of which are likely to be attacked in Congress.**

Outlook: **Despite running fights on the floor, and cloak-room haggling, no important change in the size of the budget spending figure will be achieved in Congress.**

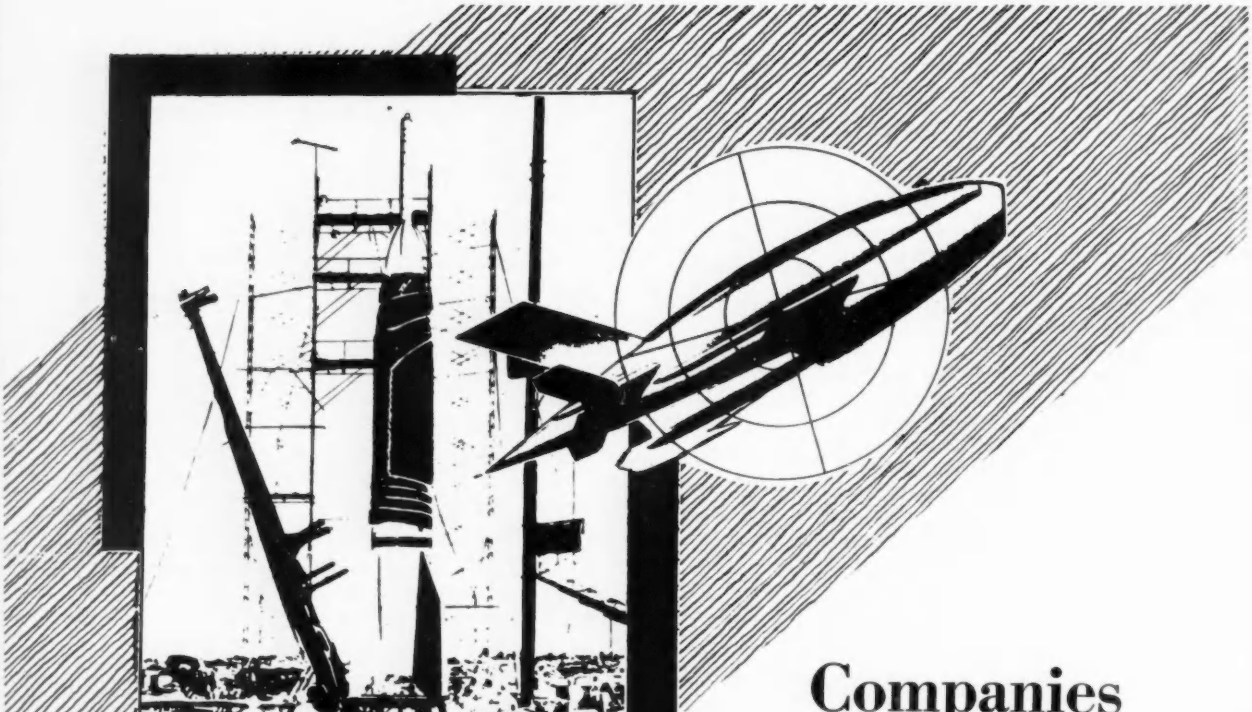
Implications: **A continued inflationary influence emanating from Washington throughout the next 18 months and beyond. Continued firm Federal Reserve policy. No change in the Federal debt. No reduction in taxes, except minor adjustments. A possibly serious schism opening in the ranks of the Republican party, on the issue of fiscal conservatism.**

Indicator of Spending

It is worth adding that the brief and necessarily selective picture of Federal finances in fiscal 1958 drawn above can not, unfortunately, be treated as a one-year aberration in an otherwise successful battle against Federal spending. For the past three years, the Administration's requests to Congress for new obligational authority have been in a pronounced up-trend. The purpose of such requests is to set aside funds against which contracts—Government orders for goods and services—can be placed for future delivery. Obligational authority is thus a very reliable indicator of spending to come.

Admittedly, the bulk of this authority is to finance the ordering of new types of military equipment, which are complex enough to require much more than a year for production and delivery. Whether such materiel, in the amounts requested, is necessary is a military decision with which civilians should perhaps not tamper: There are, after all, dangers abroad in the world which are even more fundamental than the danger of inflation itself. If the remaining portions of the budget were to contain evidence that inflation was being treated as the imminent and vicious danger that it is, one might be more disposed to assume that the defense budget itself represents the minimum consistent with national security. Unhappily, the evidence in the remainder of the budget is far from convincing.

For purposes of summarizing the character of the Federal budget addressed to Congress in January, it is perhaps useful to append a few widely accepted propositions about the present state of the American economy. It is, by general agreement, already living dangerously close to its available resources. Its manpower is fully employed—in fact somewhat over-employed, judging from the reappearance of large numbers of women in the work force. Its capacity to produce a broad range of basic materials—steel, nickel, aluminum, many industrial chemicals—is already fully engaged. (*Please turn to page* 601)



Companies to Receive Major Defense Orders

By ALLEN M. SMYTHE

President Eisenhower's budget message to Congress depicts a technical warrior with a scientific weapon. The President spoke of forming new Army units called atomic commands, of intercontinental ballistic missiles, of aircraft that will break the sound and heat barriers, of guided-missile ships, of plans for nuclear reactor-driven aircraft carriers and of increasing the number of atomic submarines. All are weapons and plans unheard of, even undreamed of, in World War II.

The President emphasized the heavy expenditures planned for research and development for defense in fiscal 1958 – the year beginning July 1, 1957. He stated these scientific efforts must be continued "to assure a constant flow of new and effective weapons for the future."

Question of Manpower Cuts

Recent events in the Near East, nervous tensions in Asia, and rebellious vibrations in the Iron Curtain satellites have caused the Administration to abandon its plan for manpower cuts discussed so freely last summer. However, Pentagon officials believe they are certain to come as soon as some of the "brush fires" of uncontrolled warfare are extinguished and perhaps long before the mood of the world will accept some practical peace plan.

Most authorities agree that when any reductions are made in personnel or military "housekeeping" expenditures, such as operations and maintenance costs, most of the savings will go to procurement of military "hardware." That is because many of our newer weapons such as supersonic aircraft and guided missiles will soar in cost when they reach the production stage.

The cost of operating the Department of Defense for fiscal 1958 is estimated to be $38 billion, up $2 billion from the present rate, out of a total of $71.8 billion of Federal expenditures. To the $38 billion

of the military budget, the President adds $2.4 billion for our military European aid program, $600 million for stockpiling, and $2.3 billion for the Atomic Energy Commission. This is a total of $43.3 billion for our national security. All of these extra budget requests are at the present rate, except that for the Atomic Energy Commission, which is increased $370 million.

59% of Federal Spending

If the $2 billion of our economic mutual security program is added it will bring our total national protection to $45.3 billion – 59% of our total Federal expenditures!

Of the $2 billion increase in military expenditures, over three-fourths is for "housekeeping" charges. The one-half billion increase for military "hardware" is made up entirely by the planned increase for guided missiles.

For major procurement, the budget planners estimate $12.3 billion. Of this amount, guided missiles will take $2 billion, – up 35%. Ship construction will go over $1 billion – up 12%. Aircraft, without components, will remain at the same level of $6.7 billion. Ordnance, electronic and other equipment make up the balance of $2.4 billion.

Research to Aid Industry

Military public works to the value of $2.3 billion is planned in the United States and overseas, and is about 14% above that of the present year. The budget provides for proposed legislation to authorize new bases and facilities for continental defense, for further work on dispersing and improving heavy bomber bases, and for essential facilities for naval operating forces.

Of interest to industry is the continued high rate of research activity. Much of the estimated $1.6 billion will be spent in the laboratories of commercial firms. Part of it will go to universities and private laboratories. Expenditures for much of this basic research, like that made for atomic energy development, will be of great value to many industries in the years to come. The President pointed out that if the development, testing, and evaluation expenditures of other related research activities were added to this sum the total would be $5.3 billion.

A close analysis of the military budget will show some trends in procurement that should be important to the investor. First of all it shows that an expertly planned and administered effort to streamline and standardize our new weapons is beginning to be felt. Next it shows that increasing emphasis will be placed on guided missiles, both for offense and defense.

The President spelled out the trend to larger, faster, and longer-range military aircraft. There will be fewer of them in time, but they will be more effective and far more expensive. Companies designing the big bombers, the aerial tankers and the large transport planes may have steady, if not increasing, business in the next few years.

There is a planned active inventory of 5,031 planes for the Army, 11,700 for the Navy, and 24,398 for the Air Force. The sacrosanct 137-wing Air Force program has been reduced to 128.

Emphasis on the B-52

The President explained that the gradual elimination of strategic fighter wings which are no longer needed will be completed. The greater mobility and effectiveness of tactical aircraft permit a reduction in tactical wings. The budget also showed that the heavy bomber wings would contain 45 Boeing B-52's, powered by eight of United Aircraft's Pratt & Whitney turbojet J-57's, instead of 30-piston-engined B-36's. Boeing also builds the KC-135 serial tankers for these jet bombers.

There is nothing in the budget message that would

Military Expenditure Breakdown—Fiscal Year 1958 Budget

	Total	Army	Navy (Millions)	Air Force	Office Sec. of Def.
Military Personnel Costs	$10,409	$3,500	$ 3,114	$ 3,795	—
Operation & Maintenance	9,598	2,971	2,484	4,143	—
Procurement & Production	(12,273)	(1,358)	(3,652)	(7,248)	(15)
Aircraft	6,737	109	1,645	4,983	—
Ships & Harbor Craft	1,040	4	1,021	—	15
Guided Missiles	2,039	562	264	1,213	—
Other	2,457	683	722	1,052	—
Military Public Works	2,242	400	451	1,350	41
Reserve Components	1,237	700	234	303	—
Research & Development	1,580	410	500	670	—
Other (including adjustments)	547	—168	—46	91	670
Sub Total	$37,885	$9,170	$10,389	$17,600	$726
"Wash Transaction"—in Oper. & Main.	115				
Grand Total	$38,000	$9,170	$10,389	$17,600	$726

Government fiscal year starts July 1.

challenge Boeing's top position in the list of defense contractors. However, four recent crashes have disturbed Air Force officials. An initial report of the "crash" board calls for over 200 modifications—14 of them major. The cost of making these changes on this $8 million dollar bomber will be over a quarter of a million for each of the existing aircraft. The Pentagon will pick up the tab, of course, but the planned delivery schedule of 20 per month next year may be seriously delayed. Such delays often influence contract extensions.

Projection of Military Expenditures

	FY 1956*	FY 1957*	FY 1958*
		(Millions)	
Army	$ 8,702	$ 8,580	$ 9,170
Navy	9,744	9,730	10,389
Air Force	16,749	16,890	17,600
Other	596	800	841
Total	$35,791	$36,000	$38,000

*—Government fiscal year starts July 1.

Boeing and North American Aviation have airframe-design survey contracts for a Mach 3 bomber that would eventually replace the B-52. It would be propelled by chemical-fueled jets yet to be developed. No hint of even research funds for such a weapon was mentioned in the budget estimates. General Electric and Pratt & Whitney have been experimenting with this type of power plant using "exotic" fuels that generate very intense heat.

General Dynamics Next to Boeing

General Dynamics should be the second largest contractor in fiscal 1958. Its Convair division supersonic medium bomber, B-58 has performed up to Air Force expectations. It should be ready to go into production as soon as its power plant, the General Electric J-79 goes into production. It will replace the B-47 now being operated from our overseas bases. This three-man aircraft is reported to travel well over twice the speed of sound and at a new high ceiling. Convair also is making progress on two of the Air Force "century" models, the F-102 and the F-106.

The Electric Boat Division of General Dynamics will benefit from the estimated 12% increase in ship construction. It already is constructing several atomic submarines and will receive contracts for several more. Other divisions handling military work should continue at the same rate.

The higher percentage of available aircraft procurement funds that will go to the heavy bombers means a sharp reduction for fighter aircraft. The reduction of Air Force Wings from 137 to 128 is largely at the expense of strategic and fighter aircraft. This could mean a "stretch-out" in a number of the "century" models. These include the McDonnell F-101, the Lockheed F-104, and the Republic F-105. Tactical bombers being developed by Douglas and Martin could also be "delayed."

United Aircraft in Third Place

There is nothing in the budget estimates that is disturbing to the jet-engine builders. The trend towards the large multi-motorized bombers, tankers and transports means greater demand for their product. Pratt & Whitney is increasing its production of the reliable J-57 of 10,000 pounds thrust. Its new J-52 of 7,500 pounds and the J-75, of 16,000 pounds thrust will find waiting airframes for all that can be produced. This engine production should place United Aircraft in third place on the list of military contractors.

Production of General Electric's new lightweight J-79, 10,000-plus pounds thrust is being awaited by Navy and Air Force. The latter will place them in the F-104 and the B-58. Grumman Aircraft Engineering will start on a large Navy contract for the supersonic carrier fighter, F11F. Early production of this new turbojet could put General Electric in the fourth place among defense firms.

Westinghouse Electric may re-establish itself among the large defense firms in the near future. The plans for a nuclear-powered aircraft carrier probably means that Westinghouse will receive the contract for its eight reactors. The increase in the number of atomic submarines also means increased business for them. Westinghouse has produced an excellent atomic marine power plant. General Electric's development of an advanced type of engine has not been too successful.

Westinghouse also is scheduled to re-enter the turbojet field. A Navy trainer will use its J-34. This will revive its jet-engine division. A new lightweight turbojet of 6000 pounds thrust, built at company expense has excellent chances of receiving a Navy contract.

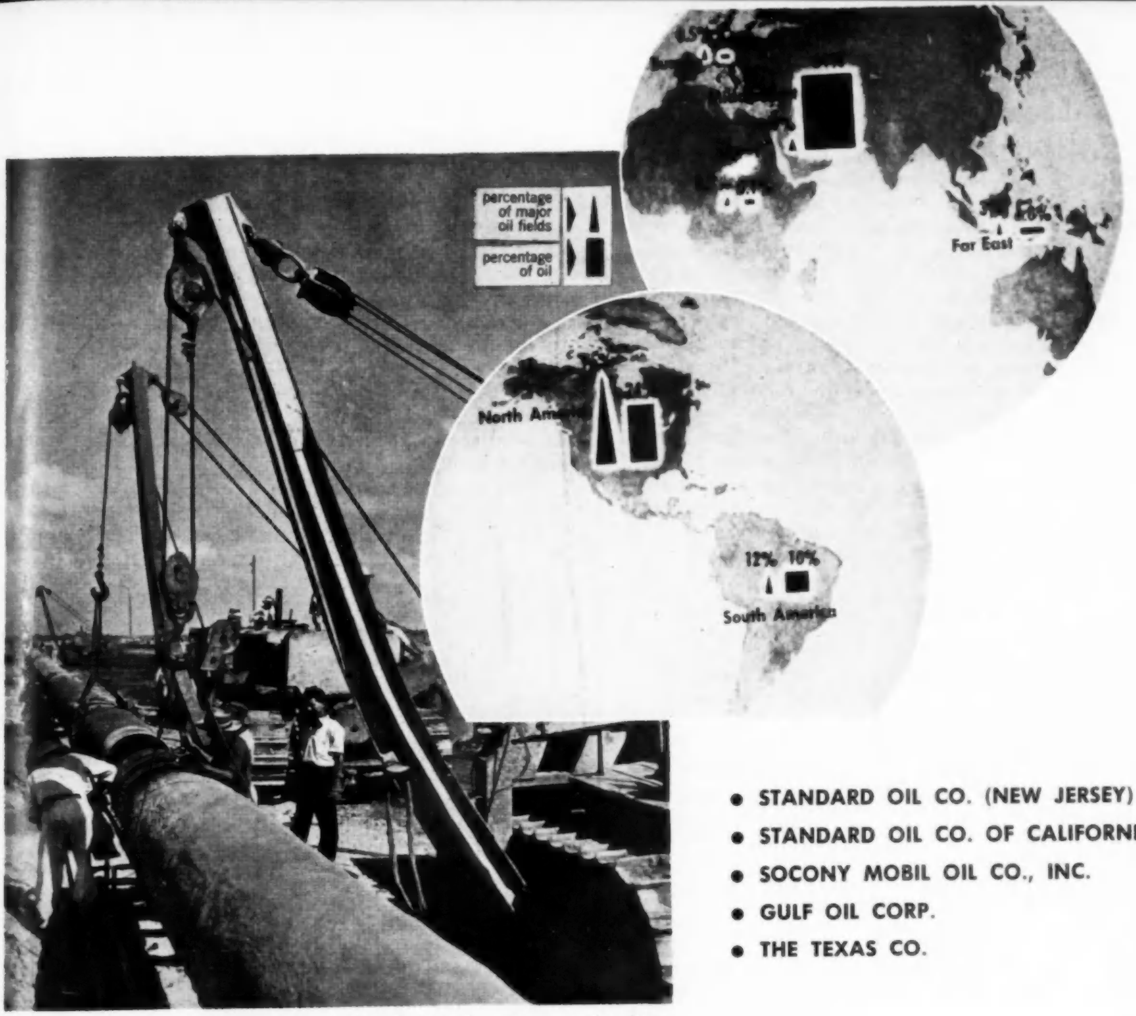
Trends in Weapons

The budget message indicates the trend in aircraft to be towards bigger, faster, and more complicated and expensive models, while it also shows the trend in guided missiles towards smaller, faster, and less complicated and expensive models. Missiles definitely are replacing artillery and the Navy is fast converting its fleet to guided missiles. They have longer range, and are more accurate and destructive.

These new weapons, when compared to other ordnance, are expensive and, with atomic warheads, are terrifically effective and miraculously accurate. The very thought of their use produces a chill feeling in every civilian and a sobering effect on every taxpayer.

Much of the contractual information on these weapons is confidential, but the budget message plus some recent releases from the Pentagon and industry indicate which companies may profit from this fast-growing part of military procurement. Many large firms serve as subcontractors on missile contracts. This is especially true for electronic firms.

The Convair division of General Dynamics is fortunate in having the prime Navy contracts for the "beam-riding" surface-to-air missiles, Terrier and Tartar. The Terrier is in operational status now and the Tartar is going into (*Please turn to page* 602)



- STANDARD OIL CO. (NEW JERSEY)
- STANDARD OIL CO. OF CALIFORNIA
- SOCONY MOBIL OIL CO., INC.
- GULF OIL CORP.
- THE TEXAS CO.

Side-boom tractors hold portions of Creole Petroleum's new pipe line now completed, which carries crude from Lake Maracaibo, in Venezuela

How Ingenuity and Exploration are Offsetting Mid-east Oil Jam

By JOSEPH C. POTTER

If the top men in the oil industry were given to bragging they might well raise this banner that has draped the lintel of far less worthy endeavors: "The difficult we do immediately; the impossible takes a little longer."

Far more so than in any other industry, the top "brass" here (aside from the prime responsibility to stockholders) must also be able to think in terms of a far larger community – the nation and, indeed, the entire Free World. This is especially the province of the boss men of those oil companies whose resources are intercontinental in scope – resources that are a matter of life and death to vast areas of the globe.

The September 1, 1956, issue of THE MAGAZINE stated: "It is no secret that this country had made considerable progress on a course of action to be followed should the flow of Middle East oil be halted or impeded."

While this course of action was being worked out by the international oil companies, fighting between British-French-Israeli forces and Egypt began. The Egyptians blocked the Suez Canal by sinking ships in that passageway for Middle East oil and the Syrians sabotaged a pipeline that carried Iraqi oil to the Mediterranean Sea. In a matter of days the thirsty economies of Western Europe were clamoring for oil. In even less time, the international oil

The Investment Viewpoint

The concluding paragraph of THE MAGAZINE study of the international oils, carried on September 1, 1956, stated: "Investors must keep in mind that, whatever the arrangement reached with Egypt over the canal, Arab nationalism is waxing and there is not now in sight a long-range solution to the myriad problems that afflict the region. The fever that grips the Arab world must run its course. Nor do we know what Britain and France, in their extremity, may do. Investors, therefore, must take these factors into consideration in viewing their oil commitments."

The world has learned what the British and French might do, but the fever of Araby lingers, shrouding in doubt the outlook for the tremendous Middle East stakes of American oil companies. Moreover, in the Communist orbit lurk the jackals, who have thrived on the maladies of others. They may be expected to place every obstacle in the path of American plans to bring stability to the region.

For those holders of international oils who scaled down their holdings to mark down costs, in keeping with our advice of last summer, there is no need to disturb commitments. The resourcefulness and enterprise of the companies, underscored in the accompanying article, should give renewed confidence to the investment community. However, we believe that new commitments should be deferred at this time.

companies were ready to take up the slack. That they did not move as fast as some Europeans would have wished had nothing to do with private enterprise – the delay was in the diplomatic and legal realm, and they could only await instructions.

Moving on the Green Light

Once the green light had been flashed by our Government – after the Anglo-French forces agreed to pull out of Egypt, the oil companies were permitted to work in concert to get supplies moving to Europe without being held in violation of the anti-trust statutes – the companies moved with the speed and ingenuity traditional to American free enterprise.

While Western Europe has been forced to draw upon its stocks of oil products, these reserves would have been exhausted in a matter of weeks but for the rising tide of oil exported from the Western Hemisphere (largely the United States). This project, with the blessing of Washington, was engineered by the 15 oil companies with foreign operations, called the Middle East Emergency Committee.

Once the extra-legal procedure was permitted by the Government, the oil people pulled out all the stops. Thus, an American oil company with a tanker-load of oil destined for our East Coast was prevailed upon by an American competitor to let it go to Europe, in return for which the competitor would give that company a like quantity out of the Texas Gulf.

Agreeing to this neat bit of collaboration, the first company directed its tanker, which was about to turn the Cape of Good Hope at the bottom of Africa, to proceed to Europe. Re-routing of tankers in the weeks that followed became a systematic procedure.

Yet another bit of logistics that would have stirred the envy of an embattled general was the movement of Wyoming oil to the markets of Europe. In ordinary times a Wyoming common pipeline hauls oil to the Mississippi in the St. Louis area for that market. Barges that ply the Mississippi, ferrying low-grade fuel oil from the Gulf to Northern factories, generally return without a load. Now these barges were pressed into service, calling at St. Louis to pick up the crude Europe wants. These cargoes, on reaching Gulf of Mexico ports, are transferred to ocean-going tankers. The Mississippi, of course, can't handle tankers.

Still another illustration of the all-out race to get product to Europe is the dredging of channels in Louisiana to get barges into remote places. This bit of improvised engineering has netted 10,000 barrels of oil a day. It provides an insight to the ingenuity that has kept Europe going despite the machinations of Egypt's dictator, Gamal Abdel Nasser, and the men of Moscow. Total shipments to Europe from this country have been averaging around 500,000 barrels a day.

But Not Everybody's Happy

On the basis of the performance cited, it would be reasonable to suppose that, aside from Cairo and Moscow, everybody would be happy. But not so.

In its bitterness and frustration over Suez, England's "yellow" press is bellowing that the Texas Railroad Commission has kept the oil-pumping quota in that state at the 16-day monthly level to keep her and the Continent on short rations. Another section of the British press is charging that the Yanks are taking "cheap" Middle East oil and sending "expensive" United States and Venezuelan

Statistical Data on

Gulf Oil	
W.C. (mil.) 12-31-55 $439.5	
Socony Mobil	
W.C. (mil.) 12-31-55 $474.3	
Standard Oil (Calif.)	
W.C. (mil.) 12-31-55 $283.2	
Standard Oil (N. J.)	
W.C. (mil.) 12-31-55 $1,642.5	
Texas Co.	
W.C. (mil.) 12-31-55 $538.7	

[1]—Adjusted for stock dividends and splits.
[a]—Including Western Hemisphere subsidiaries only.
[b]—Including all subsidiaries.
[e]—Estimated, full year.
[n]—Nine months.
[s]—Six months.
[na]—Not available.

product to Europe. This hardly jibes with the facts.

The truth, of course, is that long hauls, whether they stem from the Middle East or any other relatively low-cost region, produce competitive pricing. The nicest thing that can be said for the caustic comment in the British press is that it is based on a lack of information. This kind of sniping, however irritating, is not going to swerve the oil people, who are deeply conscious of their tremendous responsibility to the international community, from getting on with the job.

Added Cause for Unhappiness

Their yeoman job for a fuel-starved United Kingdom and Continent is even less likely to win plaudits now that the industry has boosted crude prices by 25 cents to 45 cents a barrel. Americans are paying the higher tariff, too – not without some grumbling. Oil producers have a "grumble" of their own – Europe has only a negligible interest in gasoline, of which there is a domestic glut. Europe, of course, wants to save dollars by refining its oil products.

Still, whatever their responsibility to cope with the current emergency, the oil people have problems of their own – notably rising production costs. And the uneconomic devices to which they have been forced to resort to get the product to Europe have made the burden even more painful. Besides, crude prices had not been boosted since the middle of 1953 – an interval of nearly four years during which the wage-cost spiral operated against them just as it did against other industries.

It is scarcely an exaggeration to say that no industry compares with oil for its broad basis – diplomatic, economic and geographic. Oil abundance, beneath its soil and readily available from foreign sources, gives the United States first rank as a world power. The lack of oil beneath their soil and the inability to retain control of the avenues of supply of this precious product have jeopardized the world position of top-ranking European powers. The Soviet Union, favored with oil abundance at home, could become the world's first power by obtaining control of the Middle East, which encompasses the major portion of the total oil reserves of the Free World.

Already this country has moved, however falteringly under the so-called Eisenhower Doctrine, to keep the Soviets from achieving their aims in the Mideast. The international oil companies also have moved, with the enterprise and imagination noted hitherto, to ease the pinch to the Free World brought about by Communist subversion and Arab xenophobia, operating in concert although their aims do not necessarily coincide.

Taking the Long View

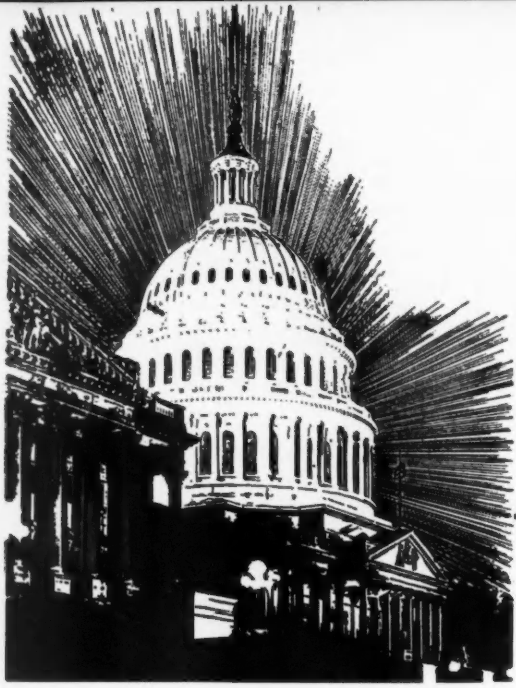
While the enterprise and ingenuity with which the oil companies have come to grips with the European emergency growing out of Suez are lauded in those quarters that understand the peril, our oil companies long have been seeking to gear their operations to overcome such hazards. Seizure of Suez, followed by the Anglo-French-Israeli attack on Egypt (made inevitable by the wishy-washy foreign policy of the United States), was only one shock, albeit a severe one, with which the companies have had to deal.

Back in 1951 it was the so-called "nationalization" of Anglo-Iranian Oil Co. (now renamed British Petroleum by the Government of Iran). And back in the 1930's our oil companies ran into the Mexican nationalization action. Nobody, but nobody, in the oil business is naive enough to believe that the industry can sit back comfortably now that a Middle East cease-fire has been attained and Nasser's sabotage of the Suez Canal is being undone to permit renewal of operations.

Our oil industry already has a direct investment abroad of something like $7 billion, yet this largest investor among all (*Please turn to page* 609)

Five International Oil Companies

Gross Operating Income 1955 (Millions)	Gross Operating Income 1956[n] (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956[n] %	Net Per Share 1955	Net Per Share 1956[n]	Div. Per Share 1955	Div. Per Share 1956	Price Range 1956-7	Recent Price	Div. Yield
$1,876	$1,075[s]	11.5	na	$7.70[1]	$6.64[1]	$2.06[1]	$2.38[1]	147½-83¾	117½	2.0%
1,721[a]	2,031[b]	12.3[a]	9.0[b]	4.74[a,1]	4.17[b]	2.00[1]	2.30[1]	82½-49¼	54¾	4.2
1,278	1,137	18.1	16.7	3.66[1]	3.01	1.43[1]	1.65[1]	58¼-43⅜	46⅝	3.5
6,272	5,375	11.3	11.2	3.61[1]	4.00[c]	1.76[1]	2.10	62⅝-49½	58⅞	3.6
1,767	1,463	14.9	14.1	4.78[1]	3.78	2.13[1]	2.35[1]	69⅞-53⅛	59½	3.9



Inside Washington

By "VERITAS"

TARIFF control for the protection of American industry is being sought in a new technique: American Watch Manufacturers Association has gone to the Office of Defense Mobilization for encouragement in its effort to remain alive and active in face of import growth. The essentiality of watch skills has been established in several defense studies but, say industry spokesmen, there is danger these will be lost for lack of replacements. Britain, France, Germany and Soviet Union have strengthened their horological arts since World War II. ODM will be asked to take matching steps. Import quotas seem to be preferred by the industry over tariff regulation.

WASHINGTON SEES:

Political campaign activity is out of season but happenings in the capital in the past several weeks seem to dispute the calendar. The cases of Senator William R. Knowland and GOP National Committee Chairman Leonard Hall are in point.

Rarely have men proclaimed withdrawal from public life while holding so many strings. Neither is doing much to put down rumorings that they have carefully planned their futures with high office in mind. It must be assumed that there is accuracy, if not outright encouragement, in the news that's going the rounds.

The scuttlebutt on Hall is this: He will take a vacation for about six weeks, then will accept appointment on the Eisenhower team, probably to Cabinet rank. That accomplished, his campaign for Governor of New York will begin in earnest.

Senator Knowland and Vice-President Nixon have buried the hatchet — not happily, but for practical reasons. They will make common cause against Governor Knight of California, remove him from the political picture, Knowland succeeding him. The Senator is said to be convinced he can not beat Nixon for the Presidential nod anyway. So it will be all Nixon at the convention.

ANTHONY EDEN may be the sacrificial lamb of the world crisis or he may have blundered in provoking the Suez turmoil, but whichever is the fact, his retirement brought relieved sighs to the State Department. His illness and that of the Atlantic alliance coincided. United States diplomats were bullish on Sir Anthony when he took over. In the early days he followed the Churchillian program. But in more recent months there appeared to be inclination to make the European Alliance the major pact, with Britain dominant. Eden was suspected of regarding Uncle Sam as banker, not engineer. He had Ike very worried.

MIDDLE EAST policy pronounced by President Eisenhower in his special message to Congress is headed into rough seas. Neither his party nor the opposition appears to have the confidence necessary to go ahead with Ike's ideas, or, to the contrary, scuttle them. The Congressional committees are slowing the processes of decision. Obvious purpose is to evaluate public opinion as reflected in the press and in the mails. Military operations bring shudders to the lawmakers, some of whom already have voted the country into two major wars and the Korean action. They're not balking as yet; just hesitant.

GOVERNMENT action can accomplish little in the way of holding the consumers' price index down next year. The year 1956 was a major one in negotiation of wage-hour contracts with automatic annual increases, first of which will be taking place in early months of 1957. Cost of the product naturally must go up to meet the added payroll burden. And when cost of living rises, labor contracts in the big employment industries bring automatic pay boosts to thousands, starting new rounds. Three-year labor contracts, many of which were signed last year, mean more pay hikes in 1958.

As We Go To Press

▶ It is too early in the session to indulge flat statements, but it begins to appear that President Eisenhower will just about write his own ticket on foreign-aid funds. Until the Middle East crisis arose the line was holding firm against continuing spending on the same level as in immediate past years. But then in rapid succession came the Suez incidents, Hungary and Poland erupted, and Nehru spent hours behind closed doors with Ike. What the two heads of state talked about won't be spread on the record. But in its very mystery the meeting holds control of the outcome of a close vote on foreign-aid appropriation.

▶ The President's Middle East message was an effective presentation. The Democrats sought to cushion the impact of Ike's argument by proposing a watered-down policy whose major point of difference was the absence of new aid funds. Neither was a declaration of war on anybody; and neither set up a formula in the operation of which troops might move automatically upon the accomplishment of specified facts. So it was apparent that the Demmies saw the argument against a big aid bill dissipating. They were right.

▶ Perhaps more important is the fact that Mr. Eisenhower was elected on a "peace" platform. Even the Democrats who survived the Ike landslide realize there is a mandate to keep our Allies strong. Republican Senators and House members aren't likely to quarrel with the election results. So it shapes up as a situation in which few legislatures are ready to chance their judgement against that of the General in the White House.

▶ And if further testimony is needed, there is the comment of Rep. Clarence Cannon, Democrat and chairman of the Appropriations Committee: "In the present delicate world situation, Congress can't and, in my opinion, won't ignore President Eisenhower's request. If a little more money will buy a little more security for ourselves and our Allies, I think Congress will vote it."

▶ Political wiseacres began counting Senator Estes Kefauver "out" when Senator Jack Kennedy bested him in a contest to fill a vacancy on all-important Foreign Affairs Committee. The fact is that Kefauver put up only a half-hearted fight for the spot, knowing he was likely to lose more than he would gain. Up for grabs was the lowest seat in point of seniority on the committee.

▶ Kefauver is second man on Judiciary Committee and it was in that post that he won fame as a crime fighter – chairman of a subcommittee. He'd be the next chairman of the Armed Services Committee if a vacancy arose there. But to take Foreign Affairs he'd have to relinquish seniority elsewhere and an ever-blooming candidate needs the nourishment of publicity. He'd get little of that if he shifted.

▶ In spite of the clamor for scalps that has come in the wake of admittedly distressing developments in the international situation, there have been some diplomatic victory signs which seem to be going unappraised. When Burma, Ceylon and 10 other unaligned Asian-African nations joined the Western powers in the United Nations censure of Russia, the Kremlin suffered diplomatic defeat of first magnitude. But this took place when bigger news was breaking. Result: An inside page story. The 58-to-8 vote with 13 abstentions shows how much the brutality in Hungary has cost the Soviet in terms of world opinion.

▶ The implications of Hungary didn't go unnoticed on other small and weaker nations. Burma's Foreign Minister U Pe Kin put it on the line: "There, but for the grace of God, go we!" Since that vote was taken, Nehru has come to the United States. India had abstained. The

Indian felt constrained to come to Washington to take advantage of the best sounding board for echoing his reminder that his country objected only to the severity of the censure language, not to the idea of condemning Russia.

▶ New account juggling, which would channel $1 billion of reserve funds of the veterans' insurance program into sagging Veterans Administration home-loan programs, is being readied by a "liberal' bloc in Congress. Senator Hubert H. Humphrey of Minnesota and Rep. Wright Patman of Texas, both Democrats, are sponsors. White House caught wind of the plan and is rallying forces of opposition. The President's advisers contend such an investment policy would subject the GI insurance program (National Service Life Insurance) to unwarranted risk.

▶ Whether the Humphrey-Patman program will prevail over assured Treasury opposition is questionable. But the substance of the instant debate may become more important than the decision: It is being whispered around Capitol Hill that the Administration's objection to funneling $1 billion in cash stems from the fact that it doesn't have the cash. As the story runs, the money actually has been diverted for Government running expenses and that the "reserve" is only a credit. This line of inquiry, which is certain to be indulged, would lead directly to a probe of how much money there really is in the old-age pension account. That's been the subject of stage whispers, too.

▶ The economic prospects for the farmer, as viewed by one of his most vocal spokesmen, The National Farmers Union, include: No major depression because the economy will be managed to prevent over-expansion; recession is possible because Government policy has pushed interest rates to the highest level since the 1920's and hard money is dragging down the momentum of business; farm prices and farmer income will stay roughly the same as in 1955-1956 with income helped somewhat by the Soil Bank, although prices will fall off; prices will level at about 80% of parity; farmer costs will reach all-time high; no relief from the burden laid on small business by the hard-money policy.

▶ John S. Coleman, U.S. Chamber of Commerce president who toured the country to create a grass-roots lobby for business (he says so-called big business has been too timid in dealing with its elected Federal officials and should speak up in its own interest), came back with an important statistic: The gross annual product of the United States should hit $450 billion in 1957. At the end of 1956 it was hitting around $415.

▶ Mr. Coleman is optimistic. With the current trend in population the annual product value is not likely to level off in the near future. In his reckoning he has given notice to price increase but hasn't attempted to figure how much that accounts for in the new estimate. That's creeping inflation, the Chamber of Commerce executive concedes; but, he says, a 3% to 4% normal annual increase in prices is on the healthy side.

▶ Interesting, too, because the findings are likely to be basic in Chamber attitudes toward new legislation, is the report that business isn't uniformly blaming the Federal Reserve Board for the tight-money policy. FRB followed, didn't create, the fact, says Coleman, who continues: "We hear a great deal that small business can't get credit. If you talk to the banks, there's absolutely no discrimination between small and large business. It's a matter of risk, and I think it is consonant with the sound-money policy. I believe there is a great deal of exaggeration over the dire straits that some businesses find themselves in."

▶ Encouraged by the results of the tour, the U. S. Chamber has chartered an airplane and will fly exhibits, printed material and speakers to 11 representative communities next month. This will be the beginning of the new ""businessman's lobby."

▶ Corporate bonds are the favored investment source for corporate pension funds. The Securities and Exchange Commission's annual survey for calendar 1955 listed a total of $14.2 billion in all the funds, of which $7.2 billion was in bonds. Common stock came next, $2.9 billion. U.S. Government Securities were shaded to a $2.5 billion third. About $510 million was invested in preferred stock.

By V. L. HOROTH

1957 Import-Export Trade Outlook for American Companies

Last year saw an amazing record made by our foreign trade. The growth of merchandise exports, which reached the $17 billion level – some $2¾ billion more than in 1955 – surprised everybody, particularly as it outpaced the rise in domestic business activity. It also provided unexpected but highly welcome support for many lines of business. Imports, which increased $1¼ billion, to $12.8 billion, also were at a record level.

This record will be hard to beat, though forecasters, generally, agree that United States foreign trade will establish another record this year. But there are many more imponderables to consider than usually is the case. The most important among these is the effect of the Suez Canal crisis. It will take some time to re-establish normal trade movements, even with the canal reopened to all traffic, say by June. In view of Egyptian President Nasser's game of raising the "ante," the more normal international trade movements may not be resumed at all this year.

The shifting pattern of trade in petroleum products may alone make all estimates of U.S. exports and imports go awry. At the time of the outbreak of the Suez crisis last October, this country was importing about $1,160,000,000 worth of petroleum

products a year. Some two-thirds of these imports consisted of fuel and residual oil from Venezuela. As against these huge oil imports, our exports of petroleum products were at the annual rate of about $450 million. In other words, this country had *a deficit* of some $700 a year in its trade in petroleum products.

What will happen to our petroleum trade this year depends very much on the decisions of the Middle East Emergency Committee, made up of 15 international oil companies responsible for keeping oil moving to Europe. If, for example, the committee decides to divert Venezuelan oil to Western Europe rather than to the United States in order to save tanker space, a lot of petroleum will not get into our foreign statistics at all, and we may end up showing a *small surplus* in our international petroleum accounts.

Clues to Foreign Trade Prospects

Number 1 clue to U.S. exports is the amount of dollars made available to foreigners in any one year by private business and individuals, and the U.S. Government. Last year, foreign countries earned or received just about $25 billion, a record amount. This amount has risen every single year since 1949, when it was only $16.6 billion despite the fact the Marshall Plan then was at its height.

There are four major sources of dollar earnings and receipts insofar as foreign countries are concerned:

(1) *Imports* which, in turn, depend on the level of domestic industrial activity and the prosperity of the U.S. consumer. Prices also are an important factor. Last year, price increases of about 2% added some $250 million to our import bill.

(2) *Services* performed by foreigners for Americans. Included are ship earnings, spending of American tourists abroad, royalty payments, etc. Last year, foreign countries earned for these services about $4.6 billion, equivalent to more than one-third of U.S. imports.

(3) *U.S. Government spending abroad.* In 1956, for example, Washington spent the stupendous figure of $5.4 billion for assistance grants—stupendous despite the termination of Marshall Plan, Export-Import Bank and other loans, and the maintenance and construction of U.S. defense installation abroad. Included also was the spending of U.S. troops abroad.

(4) *Outflow of U.S. investment capital,* and purchases of foreign securities by U.S. investors, as well as short-term loans and other accommodations by U.S. banks.

Number 2 clue to U.S. exports stems from the fact that foreigners are inclined to spend the dollars they have earned or received. Until the outbreak of the Suez crisis, foreign countries were becoming increasingly liberal in their spending for American goods. Despite this, they were building up their gold and dollar holdings.

The Suez crisis, the specter of Asian ultranationalism and the possibility of the intensification of the "cold war" may not interfere with underlaying forces making for the expansion of world and U.S. trade. But there may be setbacks; foreign countries are bound to be more cautious about spending their dollars. In appraising these developments, let us first turn to the prospects for U.S. imports in 1957, by reviewing the outstanding developments in 1956.

Prospects for Imports

Four major factors contributed to the rise of imports from $11.5 billion in 1955 to $12.8 billion in 1956: greater ability of foreign countries to compete

U.S. International Transactions
(Billions of dollars)

	1949	1954	1955	Est. 1956	Anticip. 1957
TRANSACTIONS SUPPLYING DOLLARS:					
Commercial imports	6.9	10.3	11.5	12.7	13.0
American travel expenditures	.7	1.0	1.2	1.4	1.5
Other services, incl. interest payments[a]	1.7	2.7	2.9	3.2	3.3
U.S. Govt. outlays					
Defense & miscellaneous	.9	2.6	2.8	2.9	3.1
Grants and loans	5.8	1.7	2.3	2.5	2.7
Private capital outflow	.6	1.6	1.1	2.5	2.0
Total dollars supplied:	+16.6	+19.9	+21.8	+25.2	+25.6
TRANSACTIONS USING DOLLARS:					
Commercial exports	12.1	12.8	14.3	17.0	18.0
Dividend & interest remittances	1.3	2.2	2.5	2.7	2.9
Other services & transactions	2.4	2.9	3.1	3.4	3.9
Total dollars used	—15.8	—17.9	—19.9	—23.1	—24.8
Added to foreign gold & dollar assets	— .1	+ 1.6	+ 1.3	+ 1.2	+ .4
Added to foreign investments	......	+ .2	+ .2	+ .3	+ .2
Errors & omissions	+ .7	+ .2	+ .4	+ .6	+ .2

[a]—includes private donations

Leading U.S. Imports
(Millions of Dollars)

	1949	1954	1955	Prelim. 1956
MOSTLY FINISHED MANUFACTURES:	1,246	2,196	2,597	3,250
Machinery & vehicles	135	359	438	630
Automobiles & parts	13	53	85	130
Chemicals & related parts	107	249	255	270
Cotton finished goods	42	80	124	160
Other textile products	93	360	462	490
MOSTLY CRUDE MATERIALS:				
Woodpulp and newsprint	620	847	890	980
Crude petroleum & products	463	784	966	1,160
Iron ore & concentrates	37	120	177	250
Raw wool	222	223	261	240
Nonferrous metals & ferroalloys	836	1,392	1,527	1,640
Copper	224	263	455	490
Nickel	66	155	183	190
Crude rubber	240	262	441	370
MOSTLY FOODSTUFFS:				
Coffee	795	1,486	1,357	1,450
Sugar	372	410	414	500
Cocoa	125	252	185	150

with the domestic product in our own market; the growing dependence of the United States on overseas raw materials; rising industrial activity in this country, and higher prices.

Business expansion and the growing dependence on foreign raw materials were primarily responsible for heavier spending for non-ferrous metals and ferro-alloys. The bill was about $120 million larger than in 1955, with copper, nickel, manganese, and zinc contributing most of the increase. Iron ore imports rose to almost $250 million, doubling within the last two years. Paper, newsprint and woodpulp – the third largest import items – cost us about $90 million more than in 1955, partly due to higher prices. Petroleum imports – the second largest item – also were up sharply. The largest single component of our imports remains coffee. The cost of coffee and sugar imports, which in 1956 were about $200 million larger than in 1955, was influenced by price movements.

The growing ability of foreign countries to compete in our own market was reflected in the steadily rising imports of foreign manufactures. In 1956, these imports exceeded the $3 billion level, being almost $1 billion more than two years ago, in 1954. Imports of machinery and foreign motor cars came to over $600 million, against $440 million in 1955. The figure for 1949 was only $135 million. Imports of cotton textiles, mainly from Japan, also more than doubled in the last two years. Imports of chemicals, photographic and optical goods, glass products, and toys likewise showed large increases. It may be added that our increased prosperity and rising purchasing power have had a great deal to do with providing an ever-widening market here for foreign manufactures and specialties.

Europe Seeks Bigger U. S. Market

Merchandise imports in 1957 will be under the influence of much the same factors that resulted in the record-breaking figure for 1956. There is likely to be redoubling of efforts by Western Europe – and Great Britain, in particular – to sell here more finished goods in order to get dollars to pay for heavier oil imports from the Western Hemisphere. The forecasts of U.S. business activity for 1957 generally are optimistic, though there seem to be more than the usual number of dissenters and worriers who insist that booms must come to an end sometime.

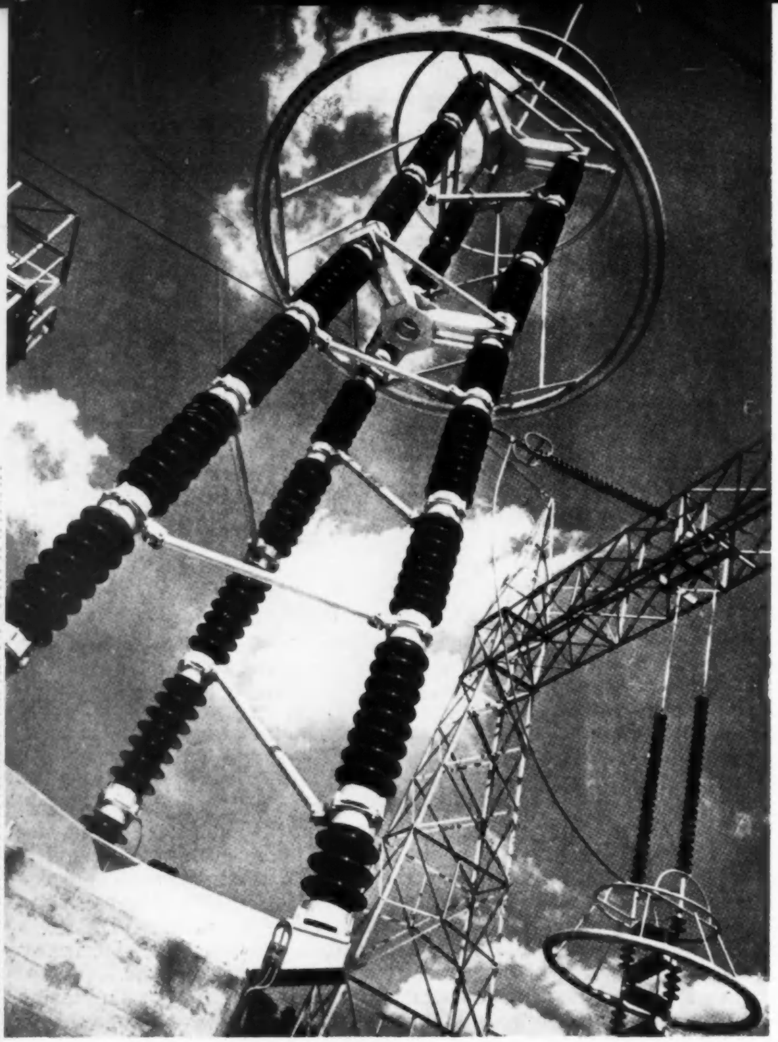
It would seem, therefore, that our raw-material needs will be just as high or higher than in 1956. This, in combination with our growing dependence on overseas resources, should make for heavier imports of raw materials. Imports of iron ore are certain to be higher, and so will be those of many nonferrous metals and ferro-alloys. Also the bill for paper and newsprint is bound to be higher because of rising costs and prices.

As already noted, the major imponderables in the 1957 import outlook are petroleum imports and the trend of raw-material prices. If business activity in Western Europe is held down by the Suez crisis, some raw-material prices may weaken. The outlook for coffee prices is uncertain, but sugar imports unquestionably will cost more this year than in 1956.

Taking these various factors into consideration, most of the forecasters agree that 1957 merchandise imports will establish another record, possibly around $13 billion.

Other Dollar Earnings

There seems to be agreement that dollars received or earned by foreigners from non-trade transactions this year will be as large or larger than in 1956. The spending of American tourists abroad, which came to about $1.4 billion in 1956, is expected to increase less than in the last few years, partly because gasoline rationing may discourage American motoring abroad. The earnings of foreign ships are likely to be up, as a (*Please turn to page* 603)



–A Giant Bedeviled *by Increasing Competition and Lower Profit Margins*

By JONATHAN EDWARDS

The recent deterioration in the market position of the chemical stocks, notably in the super "Blue Chip," E. I. du Pont de Nemours & Co., has raised a question whether new developments might not require a re-appraisal and investor re-rating of such stocks.

At the price of du Pont common as this is being written, at around 183, the market is placing a value on du Pont shares of less than $8.4 billion, which compares with a value of more than $11 billion at the 1955 high point. In other words, market valuation of the du Pont common stock has deteriorated by more than $2.5 billion.

Perhaps even more significant is the change in price-times-earnings ratios, in relation to the all-stock-groups averages. Traditionally, chemical stocks have been expected to move at considerably higher price-times-earnings figures than industrial stocks as a whole, largely on basis of "growth potential." This has been particularly true of the shares of du Pont, leading company in the industry, because of its exceptionally strong and steady growth record over the past 25 years.

Charting the Slide

At its high point in 1955, for example, du Pont common sold at 31.8 times earnings, compared with a representative index for average price-earnings ratios on 50 industrials of 13.1 .

At its present price, however, du Pont common is selling at about 22 times earnings, whereas other similar industrial stocks – those used in the Dow-Jones industrial average – average just under 15 times earnings.

A number of market observers hold to the opinion that the chemical industry, including the leading company, du Pont, is passing or already has passed the early period of sensationally rapid growth, and that sales, and particularly earnings, will from now

on tend to level off, in a plateau-type phase.

Some note that the chemical industry is becoming an increasingly larger segment of the over-all economy, and argue that its ability to outperform other industrial groups thus becomes exceedingly difficult.

During the past year, it is pointed out, increasing competition has caused upward price adjustments to lag behind cost increases, resulting in narrowing profit margins – and, it is held, this situation shows signs of continuing. Further, it is noted, despite the fact that there is ample productive capacity in most chemical lines and a growing excess capacity in a widening number of directions, the chemical companies spent a record amount last year in building new plants, and have projected similarly high capital outlays for the coming year.

With profit margins narrowing, construction costs rising, and charges increasing for "outside" money for financing, this indicates, it is argued, a dwindling return on investment in the chemical field.

Field Getting Crowded

Aggravating the competitive situation, it is noted, is the fact that "outside" companies, ranging from oil companies to milling, have been scrambling to get into the chemical field, particularly in what has been the favorably profit-margined chemical-processing business, where du Pont, for instance, has concentrated its activities.

Recent results of du Pont activities appear, superficially at least, to support this picture.

The company, for 1956, is expected to show dollar sales leveling off, in fact probably slightly below the $1,941,385,000 total for 1955. Further, profits, it is estimated, will be shown below $8.25 a common share, perhaps $8.15 to $8.20, which would compare with 1956 profits of $9.26 a share.

Narrowing Profit Margins

An important factor in the decline in du Pont earnings was the narrowing of profit margins on a number of important lines. Also, about one-third of du Pont sales goes to the textile industry (fibres, dyes, etc.) and the textile industry had a slump last year. Further, in the company's paint, varnish and lacquer business, automobiles are of high importance – and there was a slowdown in automobile production in 1956.

To cap it all was a decline in dividend revenues from du Pont's holdings of 63 million shares of General Motors common.

It is true, also, that some of the du Pont expansion money is going into fields, such as textiles and polyethylene, where excess capacity has been developing.

A closer study of what is going on in the chemical industry, and specifically in du Pont, indicates, however, that the same forces that have caused the rapid past growth will continue to operate, and that some of us may be in danger of "losing sight of the forest because of the trees."

The Question of Capacity

Actually, situations of excess productive capacity in chemicals are by no means unusual having occurred again and again in the growth period of the past 25 years. Right after (*Please turn to page* 612)

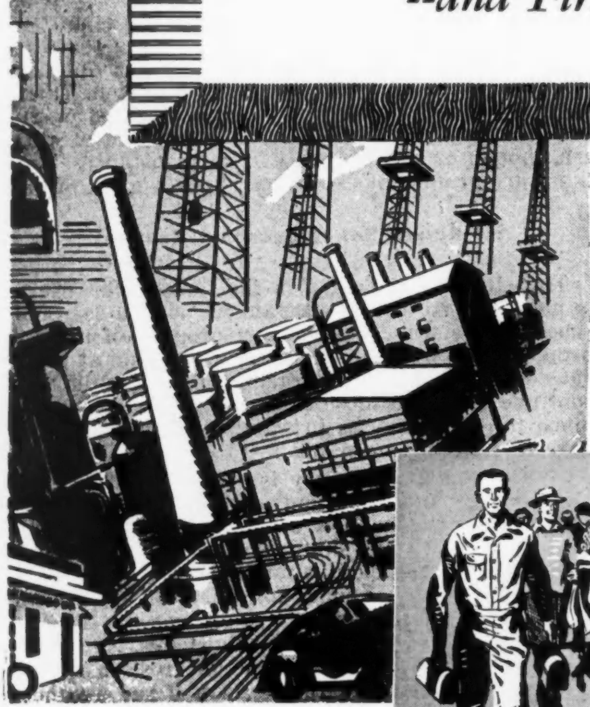
Long-Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range High Low
1956 (1st 9 months)	$1,414.7	$446.8	31.6	$187.0	$280.6	19.8	$ 6.00	$6.50[c]	14.2	237 -175⅛[d]
1955	1,909.2	597.2	31.3	321.4	431.6	22.6	9.26	7.00	21.89	249¾-157
1954	1,687.6	492.7	29.2	265.7	344.4	20.4	7.33	5.50	19.26	170 -104⅛
1953	1,749.6	549.9	31.4	413.1	235.6	13.5	4.94	3.80	14.16	108⅜- 91
1952	1,602.2	505.6	31.6	375.8	224.1	14.0	4.70	3.55	14.46	97⅜- 79⅝
1951	1,531.1	504.6	33.0	377.0	220.7	14.4	4.64	3.55	16.01	102½- 82
1950	1,297.5	405.5	31.3	229.4	307.6	23.7	6.59	5.35	24.59	85⅜- 60⅛
1949	1,024.8	247.7	24.2	120.2	213.7	20.9	4.52	4.40[a]	19.13	63¾- 43¼
1948	977.8	199.3	20.4	95.0	157.4	16.1	13.12	2.44[a]	15.66	187⅞-164 [b]
1947	795.5	165.4	20.8	66.2	120.0	15.1	9.88	2.00[a]	12.92	197 -173 [b]

[a]—Adjusted for 4 for 1 split in 1949.
[b]—Old stock, prior to 4 for 1 split.
[c]—Full year.
[d]—To January 16, 1957.

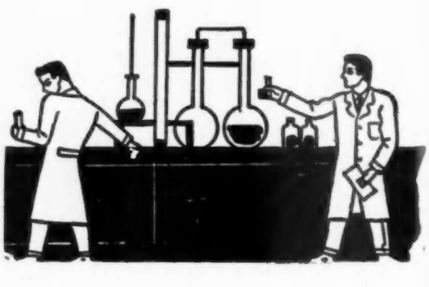
Year-end Corporate Statements

--and First Quarter Trends



Good News for Some Stockholders—

Disappointments for Others



PART 1

By WARD GATES

On the basis of the evidence, 1956 has produced a hung jury. Those economic jurors who tend to give major emphasis to personal income must find for the year, which was marked by personal income of about $333.6 billion, an all-time peak. Also favorable were such factors as record national production, totaling $410 billion for 1956 against $390.9 billion in 1955, and a production level of 147 in the final month of 1956, another peak.

The stock-owning juror, of course, is given to looking at this kind of emphasis with a jaundiced eye. He knows that over-all sales of hundreds of corporations set an all-time peak, but he has seen corporate take-home pay shrink. He also knows that inflated prices account for the bulk of the increases.

Given as he is to putting the emphasis on corporate profits after taxes, he has noted that in 1955 the total for all companies rose in each quarter (seasonally adjusted). Thus, the figure was $19.7 billion in the initial period, $20.3 billion in the second quarter, $21.5 billion in the third and a record $23 billion in the final three months. It began to fall with the advent of 1956 (on which the jury is hung), dropping to $21.6 billion in the first quarter, to $21.3 billion in the second period, to $20.4 billion in the third quarter, which was distorted by a five-week strike in the basic steel industry, but rebounding to an estimated $21.2 billion in the last three months.

Making Up Down Time

The fourth quarter of 1956, of course, reflects not

only "made up" production in the steel industry, but also the considerable profits in automotive manufacture, earned through the restocking of dealers with new models. The preceding three months were marked by poor earnings for this field, characterized by extended closedowns for model changeover.

The automobile industry, needless to say, was one of the drags on the economy last year as production of passenger cars skidded from a record of almost 8 million units in 1955 to 5,801,000 in 1956. And while "filling the pipe" has provided a stimulus for the automotive people in recent weeks, it is, never-the-less, a fact that Detroit & Co. is wary about getting enmeshed once more in the sort of burdensome inventories that bedeviled the trade through most of 1956.

Steel producers, in recent days, have reported increasing cutbacks in orders from the automobile industry. Yet another indication of the new restraint in the auto business is the announcement by General Motors Corp., kingpin of the industry, that it is curbing its expansion program. At some places it is delaying construction of new plants.

Nor is GM alone among the industrial giants deferring expansion plans. General Electric Co. has postponed no less than four building projects in the past several weeks.

Housing Starts in Decline

In late 1956, housing starts were still running at close to a million units yearly. The Veterans Administration, which has enabled millions of servicemen to purchase homes in the post-war decade with no down-payment or only a nominal payment, found further slackening took place in home-building during December under the loan-guaranty program. Housing starts of all kinds probably will drift lower in the current quarter.

When one considers the relatively poor showing of such pivotal industries as automotive and housing, 1956 must be reckoned in the round as an exceedingly good year.

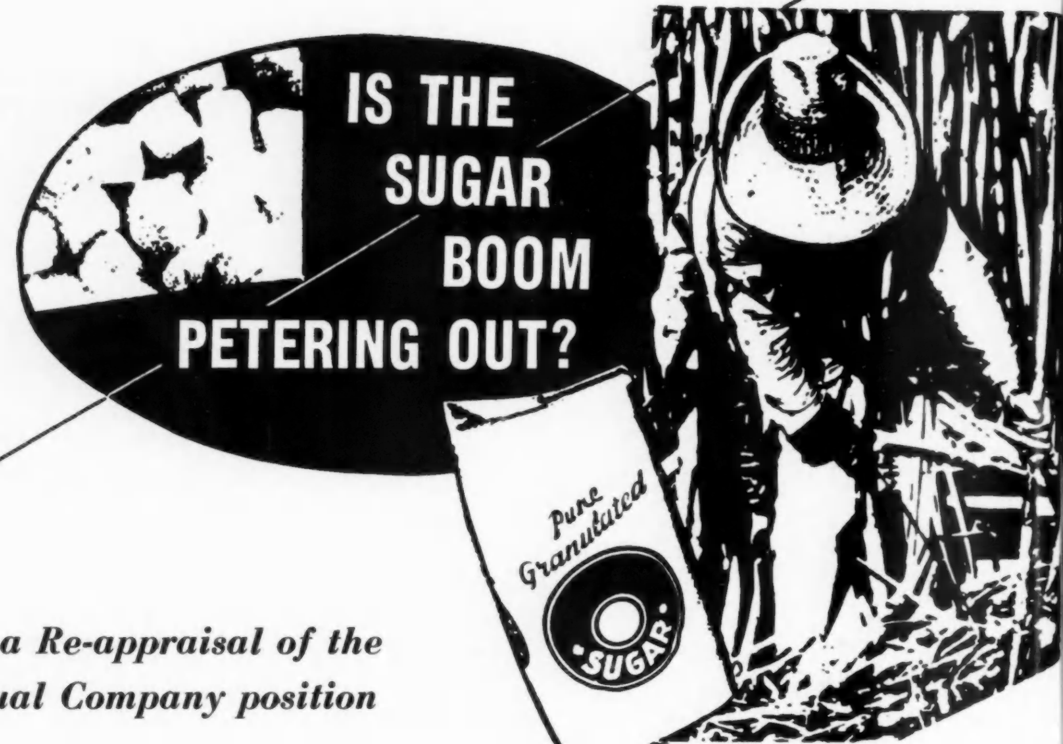
From an over-all view, however, it would appear that 1955 was a banner year, thanks to high-level consumer spending, and 1956 got a major lift from the capital spending of corporations. This year there is high hope that stepped-up Government spending for military needs and economic help abroad will provide the impetus. It is scarcely the kind of healthy spending that stems from consumers or private corporations. Guided missiles, unlike motor cars and homes, add nothing to the national wealth.

Yet another disconcerting factor is that, while business volume is expected to be high for 1957 (even at record levels), there is no sign of a reversal of the decline in corporate receipts brought down to net income. Competition may be expected to remain keen, hence the prospect of recovering increased costs through price hikes is only fair for some and non-existent for many others. These increased costs now are built in—wage increases granted in many industries last year were on the instalment plan, with labor (*Please turn to page* 604)

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales 1955 (Millions)	Net Sales 1956 (Millions)	Net Profit Margin 1955 %	Net Profit Margin 1956 %	Net Per Share 1955	Net Per Share 1956	Net Per Quarter 1955 1st	2nd	3rd	4th
Bendix Aviation	$ 567.2	$ 581.4	4.5%	4.1%	$5.66	$5.04	$1.29	$ .91	$1.08	$1.83
Carrier Corp.	190.0	193.1	4.4	4.8	4.82	5.26	.36	1.25	1.78	1.87
Caterpillar Tractor	533.0	685.9	6.7	8.0	4.18	6.08	1.29	1.68	1.42	1.78
Cessna Aircraft	50.0	66.2	5.6	6.3	3.88	5.75	.....	2.44[1]	1.41	1.90
Chain Belt	45.2	56.7	7.1	8.2	5.66	6.73	1.57	2.24	1.50	1.84
Dayton Rubber	69.1	75.8	3.3	3.4	2.86	2.79	.48	.72	.59	1.02
Deere & Co.	339.5	313.5	8.3	6.3	3.91	2.67	.46	.61	.38	1.21
Douglas Aircraft	867.5	1,073.5	3.2	3.1	7.65	8.96	1.38	2.08	2.10	3.30
Dow Chemical	470.7[2]	565.2[2]	7.9	10.5	1.64[2]	2.52[2]	.61	.70	.47	.54
Dresser Industries	170.7	230.0	6.3	7.5	2.51	3.98	.82	.91	1.13	1.14
Firestone Tire & R.	1,114.8	1,115.1	4.9	5.4	6.82	7.43	1.66	1.68	1.94	2.16
General Shoe	167.8	195.1	3.2	3.1	7.65	8.96	1.38	2.08	2.10	3.30
International Harvester	1,165.7	1,252.0	4.7	3.9	3.60	3.16	.79	.77	.62	.98
Marathon Corp.	135.1	152.8	6.7	6.0	2.51	2.53	.53	.50	.67	.84
Minneapolis Moline	72.2	66.2	9.4	8.0	.14	.16	d .75	d .34	d .17	1.41
Oliver Corp.	133.6	107.8	3.5	1.7	2.13	.76	d .29	.10	.26	.69
Rayonier	142.5	137.9	11.1	10.1	2.87	2.65	.70	.82	.58	.55
Shamrock Oil & Gas	43.1	52.5	13.1	17.1	3.43	3.92	1.14	.93	.83	1.04
Stevens, J. P. & Co.	321.1	372.6	2.6	2.2	2.15	2.08	.65	.45	.40	.58
West Virginia Pulp & Paper	176.2	187.6	8.9	8.7	3.08	3.19	.58	.65	.97	1.01

d—Deficit. 1—6 months. 2—Year ended 5-31.



IS THE SUGAR BOOM PETERING OUT?

—with a Re-appraisal of the Individual Company position

By EDWIN A. BARNES

The recent spectacular advance in the price of "world sugar", a movement unparalleled in peacetime, has focused an unusual amount of attention upon this common household commodity. Within a matter of a few months, the price of sugar for consumption outside the United States has more than doubled. Here, where we operate under a quota system designed to bring domestic producers of beet and cane sugar higher prices than in the world market, the advance has been more restrained but nevertheless significant.

Even though the full extent of the extremely sharp price advance may not be maintained, there appears to be little doubt that the average price of sugar in world markets this year will be substantially higher than during the past few years. This has far-reaching implications, from the standpoint of profitability of operations, for sugar producers. Some domestic refiners, who have a stake in sugar production in Cuba and other countries, also stand to gain.

What Happened?

Eventually, of course, the higher prices will result in over-stimulation of production and reduction in consumption, with inevitable contraction of values. But that will take a long time and does not throw much light on current conditions.

On the New York Coffee and Sugar Exchange, where world supply and demand meet to determine world sugar values, the price of the May No. 4 (world) futures contract rose from 3.21 cents per pound in mid-June, 1956, to a high of 6.65 cents in mid-January, 1957. The rise really did not get underway until Fall. An astute trader, buying at the June low and selling at the mid-January high, could have realized a net profit (after payment of commission) of approximately $3,800 on a single contract of 50 long tons of sugar.

It is doubtful that any trader was so astute, or fortunate, as to buy at the low and sell at the high. Nevertheless, the sharp rise in the volume of trading in sugar futures attests to the fact that many speculators played the market for all that it was worth on the price advance, and it would have been very difficult for them not to have made substantial amounts of money on their transactions.

This does not mean that the doubling of world sugar prices was the result of a speculative frenzy, pure and simple, without any foundation in fact, For, we know from the historical record that the price of sugar and of other basic commodities is determined primarily by supply and demand. Speculative activity may result, very temporarily, in prices moving too far at either extreme before the

fundamentals of supply and demand reassert themselves.

But speculators, no matter how numerous or powerful they may be, can not "make" prices of sugar and other commodities in defiance of the supply-demand fundamentals. Speculators may anticipate supply-demand shifts before they become apparent to the trade, with the result that price adjustments are hastened.

Sugar A "War Commodity"

The rise in world sugar prices, in recognition of the changed supply-demand relationship, might have been much slower in the making had it not been for the war scare last fall over the Middle Eastern situation.

The widespread belief that a major war was imminent, with the inflationary implications thereof, sent commodity prices upward. Here in the United States, neither manufacturers nor the consuming public were sufficiently alarmed over the situation to step up their buying of commodities and goods to any appreciable extent.

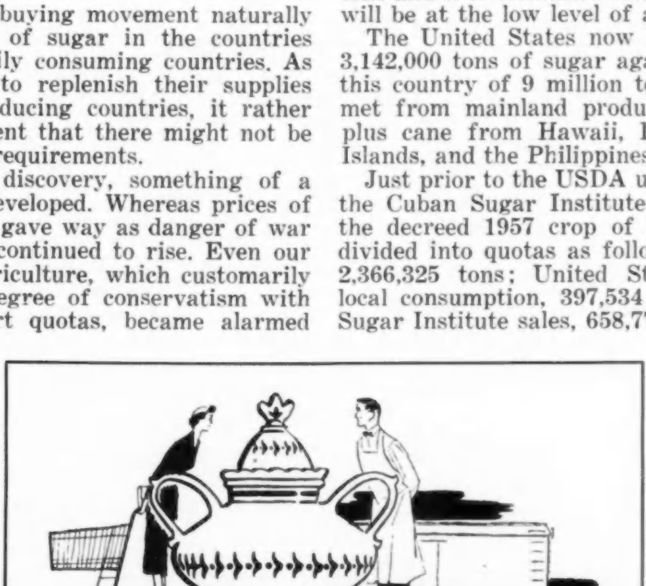
Abroad, however, there was considerable "war scare" buying, although it tapered off rapidly for most commodities when it became apparent that there was little immediate danger of a major war. Sugar was an exception.

Historically, sugar always has been scarce, with prices high, in time of war. It is a commodity that is readily storeable for many years with no more than ordinary precautions, and is not particularly bulky. Hence, it is a "natural" for hoarding.

There is ample evidence that consumers abroad in recent months have squirreled away huge quantities of sugar, just in case. Some of this will come out of hiding to move into consumption, but it is probable that much of it will be hoarded indefinitely, at least as long as the international situation remains tense.

The heavy consumer buying movement naturally created local shortages of sugar in the countries abroad that are primarily consuming countries. As these countries moved to replenish their supplies in Cuba and other producing countries, it rather suddenly became apparent that there might not be enough sugar to meet requirements.

As a result of this discovery, something of a scramble for supplies developed. Whereas prices of most other commodities gave way as danger of war dwindled, sugar prices continued to rise. Even our own Department of Agriculture, which customarily has displayed a high degree of conservatism with respect to sugar import quotas, became alarmed over the situation and raised its quota for 1957 by 200,000 tons to 9 million tons. Obviously, this imposes an additional drain upon Cuban supplies, and this recent USDA move was responsible as much as anything else for the extension of the sharp rise in world sugar prices during the early part of January.



The USDA quota for 1957 of 9 million tons, in the opinion of sugar trade economists, is considerably more than the United States is likely to consume this year. For this reason, and because the domestic price of sugar initially was substantially above the world price, the increases in prices here have been very moderate in comparison with the sharp gains in world prices.

Several months ago, when the protected domestic price was well above the world price, Cuba was only too anxious to provide the United States with the full quota assigned to that country by the Department of Agriculture.

Recently, however, with the world price above our domestic price, Cuba has shown signs of demurring at meeting the 200,000-ton increase in the quota for the United States. It is only natural for the Cubans to want to obtain the best price that they can, which now is the world market. But, USDA sugar officials are insisting that Cuba meet the increased quota.

Cuban Crop

Cuba is the major single producer of sugar in the world, and is a major source of import requirements for the United States and for a number of other countries that either have production deficits or no production at all. European beet-sugar production has risen substantially in recent years, but still is insufficient to meet European requirements. Cuban cane meets much of the deficit. Japanese imports have increased surprisingly in recent years. Quite apparently, as the standard of living rises throughout the world, the use of sugar also tends to rise.

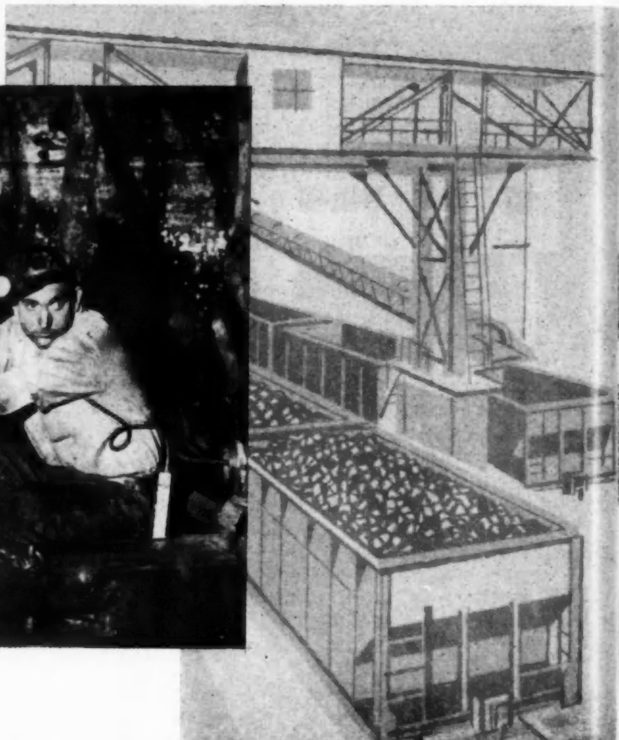
Only a few years ago, following the expansion in production stimulated by the sharp price advance during the Korean War, Cuba had a surplus of some 2 million tons of sugar. On December 31, 1956, the carryover had been cut to approximately 700,000 tons and it is estimated that this year the carryover will be at the low level of about 300,000 tons.

The United States now looks to Cuba to supply 3,142,000 tons of sugar against the 1957 quota for this country of 9 million tons. The balance will be met from mainland production of beet and cane, plus cane from Hawaii, Puerto Rico, the Virgin Islands, and the Philippines.

Just prior to the USDA upping of the 1957 quota, the Cuban Sugar Institute had recommended that the decreed 1957 crop of 5,849,432 short tons be divided into quotas as follows: United States free, 2,366,325 tons; United States retained, 170,372; local consumption, 397,534; world free, 1,802,106; Sugar Institute sales, 658,771 and a general reserve of 454,325 tons.

Cause And Effect

The total assigned to the United States plus the entire general reserve falls short of the USDA requirement from Cuba of 3,142,000 tons, and can only be met by reducing the quantities (*Please turn to page* 606)



1957 *Re-appraisal of the* COAL STOCKS

Which Have Over-discounted Earnings and Dividend Prospects— Where Growth is Still Strong

By W. A. HODGES

The remarkable recovery achieved by the soft-coal industry and its promising outlook for the future should not be considered either an accident or a miracle. Instead the vigorous resurgence stands as a brilliant tribute to American engineering genius and technical research. Progress in automation has enabled producers to reduce unit production costs in the face of mounting wage rates, which compare favorably with those paid in any other industrial segment. Fortunately, the coal-mining industry has had the cooperation of organized labor. Otherwise, mechanical achievement would have gone for naught.

Attainment of exceptional operating economies, although probably the most significant factor in coal's comeback, does not represent the only reassuring development. General economic conditions have encouraged steadily expanding consumption of all types of fuel. By remaining competitive, coal simply has kept pace and even has strengthened its position in many areas. Exciting progress in perfecting boiler equipment used by power-generating stations has broadened the market for soft coal tremendously, since this contribution of engineering research enables public utilities to lower their fuel costs through the use of coal. Moreover, the rapid decline of hard-fuel resources in Western Europe has opened an unexpectedly large market for American supplies.

Suez Crisis Spurs Demand

European fuel needs have been accentuated, of course, by the Middle East crisis, which has seriously reduced the flow of crude oil from Iran, Saudi Arabia and other vital areas beyond the Suez Canal. As a result, every ounce of coal that could be shipped from this country to France, Belgium and England could find a ready market. Hard fuel has been selling recently in France at the equivalent of $24 a ton,

thus indicating the profit potential for American producers if adequate transportation facilities could be provided.

Even though an eventual solution of the Middle East problem, permitting resumption of petroleum shipments to Western Europe, would restore an important competitive situation for coal shippers, nevertheless in some industries there is no substitute for coal. In producing steel by conventional processes now in use throughout the world, metallurgical coals are required. Approximately a ton of coal is needed to make a ton of steel. Since European coal mines are nearing exhaustion, especially with outmoded mining equipment, it seems evident that European steel producers must depend almost entirely on American supplies. The largest and most readily available reserves of metallurgical coal are to be found in West Virginia, Virginia and eastern Kentucky.

The recovery attained by soft-coal producers shows promising indications of continued progress not merely because of the likelihood of expanding export outlets. Research has opened new vistas in other directions. The prospect for greatly increased consumption of hard fuel in electric power and light utilities has been mentioned. Expansion in aluminum recently has been based on favorable research programs contemplating utilization of cheap coke and electric power generated adjacent to large mines. In addition, it has been demonstrated that many chemicals, gasoline and other petroleum products can be produced through conversion of coal into its constituent hydrocarbons.

Research Is Aid to Coal

Present costs for converting hard fuel to chemicals or to petroleum products are prohibitive, however, so that until crude oil becomes scarcer, or until conversion costs can be reduced, there is little threat to petrochemicals from coal. A process has been perfected, however, for low-temperature carbonization of bituminous coal to produce an acceptable form of coke suitable for production of aluminum. Pittsburgh Consolidation Coal Co. contemplates the application of this process in a new power plant being constructed as part of the $90 million aluminum project being undertaken by Olin Mathieson Chemical in the Midwest. Other companies are engaged in extensive research on chemical programs based on utilization of bituminous coal.

To understand the reason for the strong recovery that has taken place in coal and to appraise prospects for its continuance, it may be well to review some of the basic factors involved. In the first place, supplies of the fuel in this country are seemingly inexhaustible. Total recoverable coal reserves within the United States have been estimated at more than 950 billion tons, of which more than half consist of soft coal and most of the remainder is classified as subbituminous or lignite. So far as can be calculated, it is believed that supplies would remain adequate for a thousand years or more.

Coal is obtained from underground mines, as well as from stripping operations near the surface. With utilization of modern machinery, strip mining has gained momentum, since fuel can be loosened mechanically, cleaned and dumped into trucks at comparatively low costs. Better grade fuel is brought to the surface from underground mines after being dug from seams in rock formations by means of huge mechanical devices. Modern washing equipment is used to prepare the coal for consumption.

Productivity of American Miner Rising

An idea of the economies obtained may be gained from the fact that as recently as five years ago equipment then available enabled a mining crew to produce an average of only seven tons per man per day. Now however in modern mines, improved facilities have raised the standard for a crew to an average of 11 tons for each man every day. Such results compare with less than one and a half tons for each working day for a British miner. Even more efficient equipment has been placed in operation in some areas which hold promise of lifting output of a single miner to an average of 45 tons a day. No one needs to be an expert mathematician to understand what such a development would mean when generally adopted in new mines just being opened.

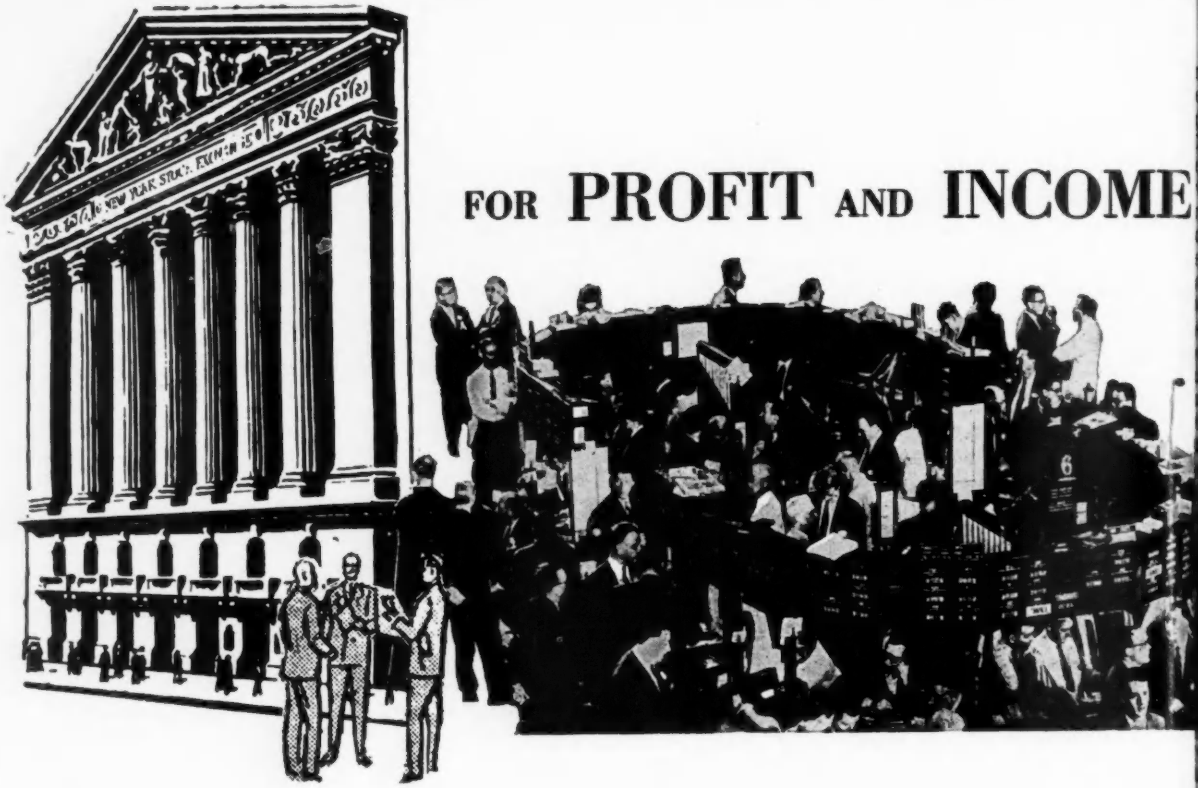
The significance of this progress is appreciated when one considers the rapid growth of public utilities in supplying a (*Please turn to page* 607)

Financial Statistics on 9 Coal Companies

	1956			1955					
				9 Months					
	Net Sales (Mil.)	Earnings Per Share	Div. Per Share	Net Sales (Mil.)	Earnings Per Share	Div. Rate Per Share	Price Range 1956-1957	Recent Price	Div. Yield
Glen Alden Corp.	$ 58.7	$ .09	$ .40	na	$ .44[5]	$ .10[2]	16⅜-10⅛	13	....
Island Creek Coal	79.3	3.17	1.50[1]	$ 85.0	2.61	2.00	56⅞-33⅛	50	4.0%
Lehigh Coal & Navigation	20.1	1.10	.60	na	1.15	.75	17⅛-13¾	15	5.0
Lehigh Valley Coal Corp.	17.5	[d] .30	......	14.0	[d] .17	......	2¾- 1⅞	2¼	....
Peabody Coal Co.	46.0[3]	.55	......	68.3	.54	[4]	14⅞-10½	12	....
Pittsburgh Consol. Coal	168.5	2.15	1.00	143.0	1.53	1.20	50½-32½	41	2.9
Pittston Co.	205.8	3.60	1.00[1]	176.7	3.47	1.20[1]	71⅝-36⅝	65	1.8
Truax-Traer Coal	45.6	1.71	1.60	22.4[5]	.91[5]	1.60	33⅞-25	28	5.7
United Electric Coal	12.4	1.01	1.00	na	.78[6]	1.00	36⅜-21	32	3.1

[d]—Deficit.
na—Not available.
[1]—Plus stock.
[2]—No div. action 5-9-56.
[3]—8 mos. to 12-31-55.
[4]—Paid 2% stock.
[5]—6 mos. ended 6-30-56.
[6]—Quarter ended 10-31-56.

FOR PROFIT AND INCOME



Front-runners

Companies which have what it takes to fare conspicuously well in unfavored, highly competitive industries are very few and therefore interesting. For instance, publishing is a difficult business in which the mortality and forced-merger rates are high. McGraw-Hill – often cited here and profitably familiar to many readers–is a highly successful exception. The home-appliance business is characterized by overcapacity, severe competition and pressure on profits; but here Sunbeam Corp. is making an excellent showing. The "pickings" are generally poor in the television-radio-phonograph set business – yet earnings of Magnavox Co. are at a record level and pointing higher. All of which proves that industry conditions and prospects are not always decisive in judging the merits of individual stocks, even though they have to be a controlling consideration in many more instances than not.

Sunbeam

This company principally sticks to making small, high-quality, trademarked electric appliances such as Mixmaster, Coffeemaster, Shavemaster, Frypans, toasters, electric lawn mowers, irons, etc. It generally beats competitors either in the timing of introduction, or the quality, of profitable new products. Earnings probably will reach a new peak in the vicinity of $4 a share for the fiscal year ending March 31, against $3.33 in the prior year. That is a real achievement in this tough industry, but it takes ever-increasing volume to get moderate gains in earnings. Thus, last year's profit on sales of $107.2 million was a penny shy of previous peak profit of $3.34 a share on sales of $67.4 million in 1950. Reasons: Operating profit margin fell from 29.1% to 20.7% over the period, or by more than a fourth; and Federal income taxes (a handicap for all companies) rose 22%. The stock recently reached a new all-time high of 50⅛ and currently is around 48. With dividends at $1.45, including a 25-cent year-end extra, the yield is only 3%. We salute the company and rate the stock worth holding; but do not see enough "oomph" in it to suggest new buying here.

Magnavox

This company has a fairly small percentage of the total market for television, radio, phonograph and hi-fi sets. In emphasis on quality, on a select list of dealers and on price maintenance, its position is somewhat comparable with that of Cadillac in the automobile industry. It is active in electronic research and development; and makes advance

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Nashville, Chatt. & St. Louis Ry.	11 mos. Nov. 30	$8.05	$4.72
Shamrock Oil & Gas	Year Nov. 30	3.92	3.43
U. S. Lines Co.	Year Dec. 31	9.37	5.34
Delaware & Hudson Co.	Year Dec. 31	5.16	4.37
Southern Company	Year Dec. 31	1.53	1.34
American Distilling Co.	Quar. Dec. 31	1.02	.84
Loew's Inc.	12 wks. Nov. 22	.33	.05
McKesson & Robbins, Inc.	Quar. Dec. 31	1.64	1.48
Safeway Stores, Inc.	Year Dec. 31	6.42	3.25
Caterpillar Tractor Co.	Year Dec. 31	6.08	4.18

ilitary and civilian electronic uipment. There appear to be romising profit potentials by 958 and beyond in its Minicard ectronic data-handling system, hich was developed with Eastman Kodak; and in new Magnard electronic-data processing ystem for automatic handling of wide variety of office work. In e fiscal year ended last June 30, les gained about 22%, net inome over 27%, share earnings round 16% to $3.54. Each set a ew record by a decisive margin. n the basis of latest quarterly ends, sales for the current year ould exceed $90 million, against e prior year's $70.5 million; nd earnings could range beeen $4.25 and $4.75 a share. In ew of poor industry conditions, is is manifestly solid, rather an fortuitous, growth. Therere, the probability is that it ill continue, although it, of urse, cannot be immune to busiess recessions. On a straight ojection of growth in recent ears, and allowing for future pontials in the Minicard and Magacard systems, present earning ower conceivably could double three to five years, assuming asonably normal average busiess conditions. Dividends are 1.50, supplemented with 5% tock payments in each of the st two years. Earnings prospects suggest liberalization of the sh payout somewhere along the ne, and continuation of annual tock extras meanwhile. The stock rrently is at 36½ in a 1956-957 range of 41-31½. In view f uncertain-to-dubious prospects r the general market, it is conctural whether it might adance much, if any, over the edium term. But stocks generlly respond, at least in some egree, to a favorable earnings end; and it would appear that e issue's appreciation potential over a reasonably extended period is well above average.

Stock Groups

In recent trading sessions up to this writing the principal stock groups performing better than the market have been casualty and fire insurance stocks, drugs, liquors, machinery, natural gas, metal fabricating, movies, rail equipments, sugar, shipping and electric utilities. It amounts to a rally from relatively depressed levels in the case of insurance stocks, liquor, metal fabricating, and movies. Groups recently faring worse than the market include air lines, automobiles, auto parts, copper, electrical equipment, food brands, meat-packing, department stores, mail order stocks, steels and tires.

Strong

On the basis of recent performance, individual stocks now pointing upward include American Sugar Refining, Barber Oil, Black & Decker, Elliott, Joy Manufacturing, Northern Natural Gas, Mississippi River Fuel, West Indies Sugar, Glenn Martin, Byers, Panhandle Eastern Pipe Line and General American Transportation.

Soft

Among the numerous issues currently indicated to be in unfinished downtrends are: Armour, Bestwall, Copper Range, General Foods, Grand Union, Federated Department Stores, Sears, Roebuck; Magma Copper, Interstate Department Stores, Marshall Field, Murray Corp., Owens-Illinois Glass, Radio Corp., Food Fair, Container Corp., May Department Stores and Zenith.

Why Argue?

The early-January rallies in retail stocks, following termination of late-1956 tax-selling pressure, generally were small and disappointing. It has taken little time for a number of them to head downward again. In general, sales gains this year figure to be small. Costs will rise further in any event, and especially if the Federal statutory minimum wage rate is extended to cover retail employes. In state minimum wage rates for retailing, the pressure is upward. Competition gets ever keener. In most cases, 1957 earnings will do well to approximate last year's. The market says "thumbs down" on retail stocks. Why argue with the consensus? This appears to be as good a time as is now foreseeable to get out of retail stocks, cutting losses before they get bigger and taking such profits as are still shown on old holdings.

Steels

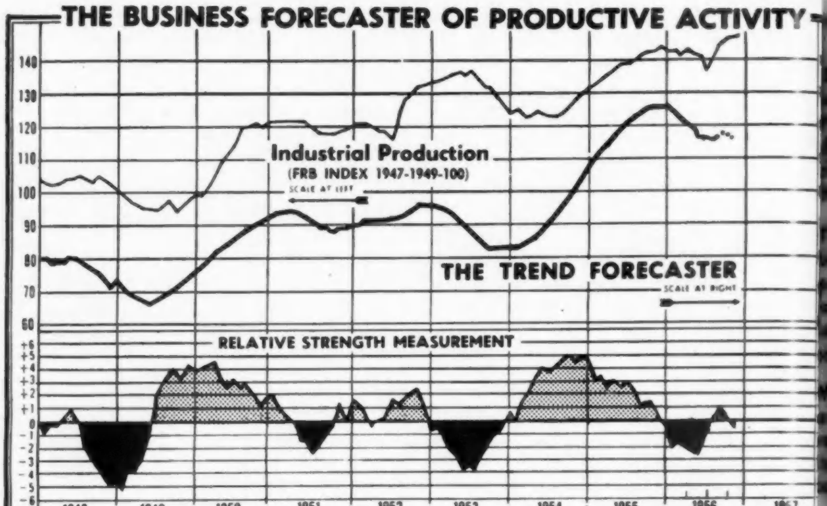
Steel stocks reacted considerably on recent reports that operations probably would taper off from the present capacity level during the second quarter. As they had previously been expected to do so by mid-year, this is no great change. But the stocks had been made technically vulnerable by broad advance. It is still thought that second-half operations may average something like 80%-85% of expanded capacity; and still likely that 1957 earnings of most companies will materially exceed last year's. But it may well be that the market "party" in steel stocks is over. At their recent best levels, market valuations were about as high as they have generally been at advanced bull-market levels. Demand will tax capacity through the year only for such short-supply steels as heavy plates, structural shapes and pipe—and these represent less than a fifth of capacity. Thus, with respect to around 80% of the business, there is no shortage; and the situation could shift in no great time from adequate supply to over-supply. There is another question which time alone can answer. Is the industry right in pressing a huge expansion program predicated on long-term population and economic growth; and, if ultimately right, is it expecting too much growth of demand too soon? The past record makes the question a pertinent one for investors to consider.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

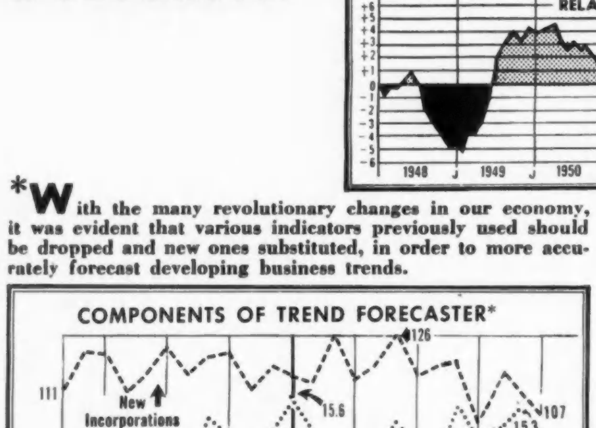
		1956	1955
Elgin National Watch	40 wks. Dec. 8	$ .57	$ .95
Illinois Central R. R.	Year Dec. 31	7.51	8.55
Bendix Aviation	Year Sept. 30	5.04	5.39
Dow Chemical Co.	Quar. Nov. 30	.54	.71
Oliver Corp.	Year Oct. 31	.76	2.13
Rayonier Inc.	Year Dec. 31	2.65	2.87
Emerson Radio & Phonograph	Year Oct. 31	.04	1.26
Deere & Co.	Year Oct. 31	2.67	3.91
International Harvester	Year Oct. 31	3.16	3.60
Lee Rubber & Tire	Year Oct. 31	1.90	2.06

the Business

Business Trend Forecaster *



***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (develo over a period of several years), which employs those indica (see Components of Trend Forecaster) that we have foun most accurately project the business outlook.

When the *Forecaster* changes its direction up or dow corresponding change in our economy may be expected eral months later.

The depth or height of the developing trend is clearly sented in our *Relative Strength Measurement* line, which flects the rate of expansion or contraction in the making. W particularly favorable indications cause a rise that exc plus 3 for a period of time, a strong advance in general b ness is to be expected. On the other hand, penetration minus 3 on the down side usually precedes an important traction in our economy.

We believe that subscribers will find our Business Tr Forecaster of increasing usefulness both from the investm and business standpoints.

Current Indications of the Forecaster

Since mid-1956, the **Trend Forecaster,** and its c panion measure, the **Relative Strength Measurem** have persistently traced out a pattern reminiscent of pattern of mid-1948, a period that preceded a general t down in business conditions. The **Relative Strength Me urement** rose out of the negative range in the third qu to a low positive level, but preliminary figures for the clo months of 1956 suggest a significant falling off from approximately +1 level reached in September. The **Tr Forecaster** itself, after flattening out and then rising in Fall, has turned down, according to preliminary indicat

Among the components entering into the **Forecaster,** incorporations, business failures and housing start ap in weak condition; stock prices, commodity prices and a age hours worked have fluctuated irregularly; and new o and nonresidential construction, while they strengthene October and November, have apparently declined some in December.

While no forecasting device can be expected to per with complete accuracy under all conditions, the **Tr Forecaster** has, in recent months, very effectively for the uncertain and somewhat sluggish behavior of busine late 1956 and early 1957. It continues to point towar essentially weakening business trend.

Analyst

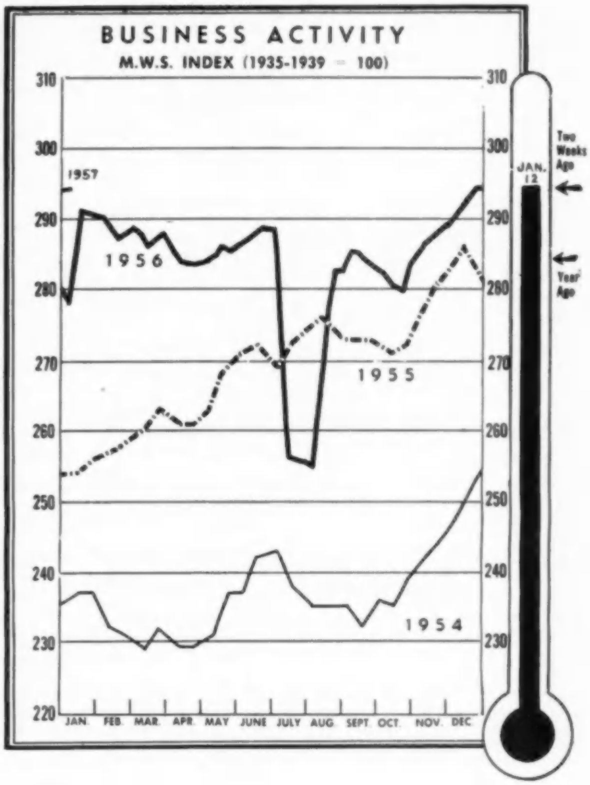
CONCLUSIONS IN BRIEF

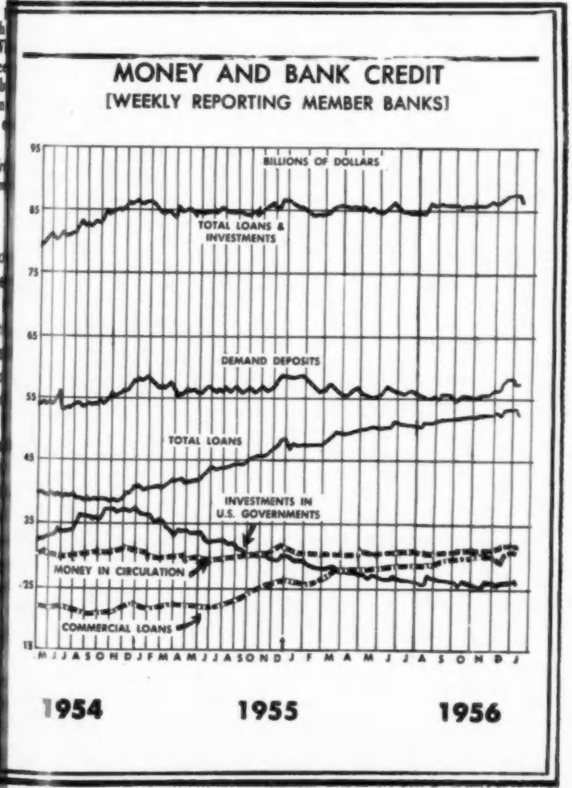
[IN]DUSTRY — Production activity is now adrift in a [se]a of cross-currents, without any general direction. [Pr]oduction in soft-goods industries is still tilted [sli]ghtly upward, but hard-goods production trends [ar]e now no better than mixed. Outlook for the next [th]ree months: approximate stability for over-all output.

[T]RADE — Retail volume in December broke records, [bu]t the showing was nevertheless not strong, and [pr]ice resistance was amply in evidence. January trade [is] at the December rate, or slightly lower. The out[lo]ok: retail volume will lose ground, relative to per[so]nal incomes, for the next three months.

[M]ONEY AND CREDIT — Easier conditions in January [ar]e partly of a seasonal character, but they may [re]flect the beginning of slow-down in borrowing for [in]ventory. Expect new tightness running through tax-[bo]rrowing dates in March and April.

[C]OMMODITIES — Increasingly ample supplies con[tin]ue to fight price increases (note especially the [pe]troleum products markets, where increases are [bu]cking extremely heavy stocks). Most building mate[ria]ls prices are weak. The speculative post-Suez price [ad]vances are being undercut by heavy output.





The President's budget message to Congress has had a profound and disturbing influence on the business picture for 1957 and, indeed, for the years beyond. Its effect has been twofold: the size of the spending estimate has obvious inflationary implications which contrast interestingly with the warnings against inflation that appeared in the "State of the Union" message; and the trend of the spending figures strongly suggests that no tax relief will be forthcoming in the next eighteen months.

The difficulty in interpreting the Budget lies in the question of whether the inflationary implications were deliberately inserted to counter several obviously deflationary trends developing in the private economy. These deflationary signals are not getting the attention they deserve, either in the business press or in management thinking. They are real signs of danger nonetheless, and it may be that the $72 billion spending estimate for the Federal government is calculated to be a first and early attack on recession. **Note the very suggestive case that could support such reasoning: inventory growing at a rate that seems insupportable for more than three months; residential building activity subsiding; nonresidential contract awards falling seriously, late in 1956; a serious degree of price resistance to new automobiles; a rising personal saving rate.**

Assuming that this is the case, and further assuming that Congress makes little alteration in the Budget and that the Administration goes diligently about the task of spending, what then is the outlook? Under these assumptions, general business conditions are likely to reach a peak by early in the *(Please turn to following page)*

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	147	146	144
Durable Goods Mfr.	1947-'9-100	Dec.	166	165	161
Nondurable Goods Mfr.	1947-'9-100	Dec.	131	129	130
Mining	1947-'9-100	Dec.	130	130	129
RETAIL SALES*	$ Billions	Nov.	16.4	16.1	15.8
Durable Goods	$ Billions	Nov.	5.7	5.5	5.7
Nondurable Goods	$ Billions	Nov.	10.7	10.6	10.1
Dep't Store Sales	1947-'9-100	Nov.	129	122	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	29.6	28.9	28.3
Durable Goods	$ Billions	Nov.	15.3	14.6	14.7
Nondurable Goods	$ Billions	Nov.	14.3	14.3	13.6
Shipments*	$ Billions	Nov.	28.8	28.3	27.3
Durable Goods	$ Billions	Nov.	14.4	14.2	13.7
Nondurable Goods	$ Billions	Nov.	14.4	14.1	13.6
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	87.9	87.2	81.6
Manufacturers'	$ Billions	Nov.	51.3	50.8	45.7
Wholesalers'	$ Billions	Nov.	13.2	13.1	12.3
Retailers'	$ Billions	Nov.	23.5	23.3	23.6
Dept. Store Stocks	1947-'9-100	Nov.	143	142	134
CONSTRUCTION, TOTAL	$ Billions	Dec.	3.4	3.8	3.3
Private	$ Billions	Dec.	2.5	2.7	2.4
Residential	$ Billions	Dec.	1.2	1.3	1.3
All Other	$ Billions	Dec.	1.3	1.4	1.1
Housing Starts*—a	Thousands	Dec.	1,030	1,060	1,192
Contract Awards, Residential—b	$ Millions	Dec.	451	625	711
All Other—b	$ Millions	Dec.	1,125	1,065	1,210
EMPLOYMENT					
Total Civilian	Millions	Dec.	64.6	65.3	64.2
Non-Farm	Millions	Dec.	53.0	52.5	52.0
Government	Millions	Dec.	7.6	7.3	7.3
Trade	Millions	Dec.	12.1	11.5	11.8
Factory	Millions	Dec.	13.3	13.4	13.5
Hours Worked	Hours	Dec.	41.0	40.6	41.3
Hourly Earnings	Dollars	Dec.	2.05	2.03	1.93
Weekly Earnings	Dollars	Dec.	84.05	82.42	79.71
PERSONAL INCOME*	$ Billions	Nov.	333.6	332.5	314.5
Wages & Salaries	$ Billions	Nov.	231	230	217
Proprietors' Incomes	$ Billions	Nov.	52	52	50
Interest & Dividends	$ Billions	Nov.	30	30	28
Transfer Payments	$ Billions	Nov.	19	19	18
Farm Income	$ Billions	Nov.	16	16	15
CONSUMER PRICES	1947-'9-100	Nov.	117.8	117.7	115.0
Food	1947-'9-100	Nov.	112.9	113.1	109.8
Clothing	1947-'9-100	Nov.	107.0	106.8	104.7
Housing	1947-'9-100	Nov.	123.0	122.8	120.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	106.7	106.1	105.4
Bank Debits*—g	$ Billions	Nov.	78.8	78.7	72.9
Business Loans Outstanding—c	$ Billions	Nov.	29.9	29.7	25.3
Instalment Credit Extended*	$ Billions	Nov.	3.5	3.4	3.4
Instalment Credit Repaid*	$ Billions	Nov.	3.2	3.2	3.0
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	4.8	3.2	4.7
Budget Expenditures	$ Billions	Nov.	5.7	5.0	5.2
Defense Expenditures	$ Billions	Nov.	3.5	3.7	3.1
Surplus (Def) cum from 7/1	$ Billions	Nov.	(0.9)	(2.8)	(0.5)

PRESENT POSITION AND OUTLOO

second quarter, and then decline as i ventory accumulation ceases. By late the year, private business activity m still be falling moderately, but it w be bucking a clear and significant ri in the rate of Federal spending (not mention the apparently everlasting ri in the outlays of state and local gover ments). Under these hypotheses, whi are now considered as tenable by ma respected analysts, 1957 will be a ye of sluggish business, but without a clear or decisive onset of recession. might be added that under these cond tions, incomes (and hence the tax bas may not rise nearly as fast as conte plated in the Budget, and the modera surplus shown in the budget may be co verted into a moderate deficit.

* * *

THE COST OF LIVING—still rising slow as 1957 begins, with **the rise broad distributed among goods and ser ices.** The retail prices of food, which pus ed the index of living costs up very sharp in the late spring, are rising only slow now. The increase in automobile price which pushed cost indexes up in Octob and November, when new models we introduced, has evidently come to a fu stop, and car prices (including used car are evidently now declining. But oth types of goods, and particularly cost services, are still climbing. Apparel price which rose steadily in 1956, are expecte to advance further in the spring of 195

* * *

SOMBRE CONSTRUCTION NOTE – December, construction indicators turne uniformly sour. Contract awards we down sharply — notably in manufactu ing buildings. New FHA applications f dwelling units, and new VA appraisal r quests, fell to the lowest level in ov five years. And the seasonally adjuste rate of housing starts declined fractio ally. A few more months of such trend and there would be an obvious need revise the widely accepted $46-billio estimate for new construction in 1957.

* * *

AUTOS AGAIN — estimates of the 19 automobile market are now being ca celled out, and a new start made. T 6.7-7.0 million estimates popular thr months ago are in the scrap heap. D pending on the seasonal adjustme used, **the current sales rate cou point to anything from 6.0 to 6 million cars sold this year.** (Sin stocks of dealers are not expected change much from the beginning of t year to the end, production and sa

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956 III Quarter	1956 II Quarter	1956 I Quarter	1955 III Quarter
GROSS NATIONAL PRODUCT	413.8	408.3	403.4	396.8
Personal Consumption	266.8	263.7	261.7	257.8
Private Domestic Invest.	65.1	64.2	63.1	62.3
Net Foreign Investment	1.7	1.7	0.1	0.2
Government Purchases	80.2	78.7	78.5	76.5
Federal	47.2	46.1	46.4	46.6
State & Local	33.0	32.6	32.1	29.9
PERSONAL INCOME	327.0	322.9	317.5	309.6
Tax & Nontax Payments	38.8	38.1	37.3	35.9
Disposable Income	288.2	284.9	280.2	273.8
Consumption Expenditures	266.8	263.7	261.7	257.8
Personal Saving—d	21.4	21.2	18.6	15.9
CORPORATE PRE-TAX PROFITS*	41.2	42.9	43.7	43.5
Corporate Taxes	20.8	21.7	22.1	22.0
Corporate Net Profit	20.4	21.3	21.6	21.5
Dividend Payments	12.3	12.2	11.8	11.0
Retained Earnings	8.1	34.5	32.8	29.7
PLANT & EQUIPMENT OUTLAYS	35.9	34.5	32.8	29.7

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 12	294.7	294.0	284.6
MWS Index—per capita*	1935-'9-100	Jan. 12	226.0	225.5	222.1
Steel Production	% of Capacity	Jan. 19	98.3	98.4	99.0
Auto Production	Thousands	Jan. 19	179	188	176
Paperboard Production	Thousand Tons	Jan. 12	278	102*	296
Lumber Production	Thous. Board Ft.	Jan. 12	217	133	235
Electric Power Output*	1947-'49-100	Jan. 12	225.8	224.9	212.4
Freight Carloadings	Thousand Cars	Jan. 12	681	562	710
Engineering Constr. Awards	$ Millions	Jan. 17	335	376	608
Department Store Sales	1947-'9-100	Jan. 12	107	93	104
Demand Deposits—c	$ Billions	Jan. 9	57.8	57.6	58.4
Business Failures	Number	Jan. 10	256	222	198

*Five days ending Jan. 5

PRESENT POSITION AND OUTLOOK

figures for 1957 should be very much the same). Availability of credit is not considered an important aspect of the automobile market now, or under any foreseeable conditions this year. What is at issue is the normal size of a new-model market. Was the 7.2-million sales rate of 1955 an incomprehensible freak, or can we hope to get back to such a level in the near future? That's one of the overriding questions that only automobile sales themselves will answer.

* * *

EMPLOYMENT — the total number of non-farm jobs rose about one million from December 1955 to December 1956. But the gains were in trade, in construction, in government; **Not** in manufacturing. The outlook for 1957: more of the same. In trade, service, transportation, employment should rise slightly. In manufacturing, and probably in construction too, the number of jobs is likely to be no better than stable, and small declines are possible. Since the labor force should grow by perhaps 700,000 in 1957, **there is a possibility that unemployment, now about 2.5 million, will be near 3 million by late 1957.** On the other hand, many recent recruits to the labor force have been women; if they lose their jobs, they are likely to withdraw from the labor force altogether, and would not be counted as unemployed.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (I)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1956-'57 Range High	1956-'57 Range Low	1957 Jan. 11	1957 Jan. 18
300 Combined Average	352.4	315.9	344.2	332.8
4 Agricultural Implements	327.1	242.1	282.4	271.5
3 Air Cond. ('53 Cl.—100)	119.4	98.8	119.4	113.7
9 Aircraft ('27 Cl.—100)	1423.5	1064.6	1380.8	1352.3
7 Airlines ('27 Cl.—100)	1117.4	908.5	962.4	922.3
4 Aluminum ('53 Cl.—100)	566.7	337.1	409.6	388.5
6 Amusements	172.3	144.1	156.2	160.7
9 Automobile Accessories	373.7	334.5	363.0	348.8
6 Automobiles	52.2	47.1	50.9	48.1
4 Baking ('26 Cl.—100)	28.7	25.5	26.3	26.8
3 Business Machines	1171.3	831.5	1028.2	997.4
6 Chemicals	652.3	556.5	598.4	580.4
4 Coal Mining	24.9	19.2	24.6	23.5
4 Communications	114.3	93.4	99.3	96.5
9 Construction	140.0	112.3	125.5	123.1
7 Containers	853.7	731.7	784.8	747.1
7 Copper Mining	361.3	283.7	307.6	292.4
2 Dairy Products	122.3	105.9	109.1	105.9L
6 Department Stores	93.7	80.1	83.4	80.1L
5 Drugs-Eth. ('53 Cl.—100)	198.3	165.0	188.0	180.7
6 Elec. Eqp. ('53 Cl.—100)	228.6	178.9	226.3	221.8
2 Finance Companies	613.7	530.3	541.6	536.2
6 Food Brands	306.1	266.4	274.8	269.4
3 Food Stores	176.9	157.2	165.5	157.2L

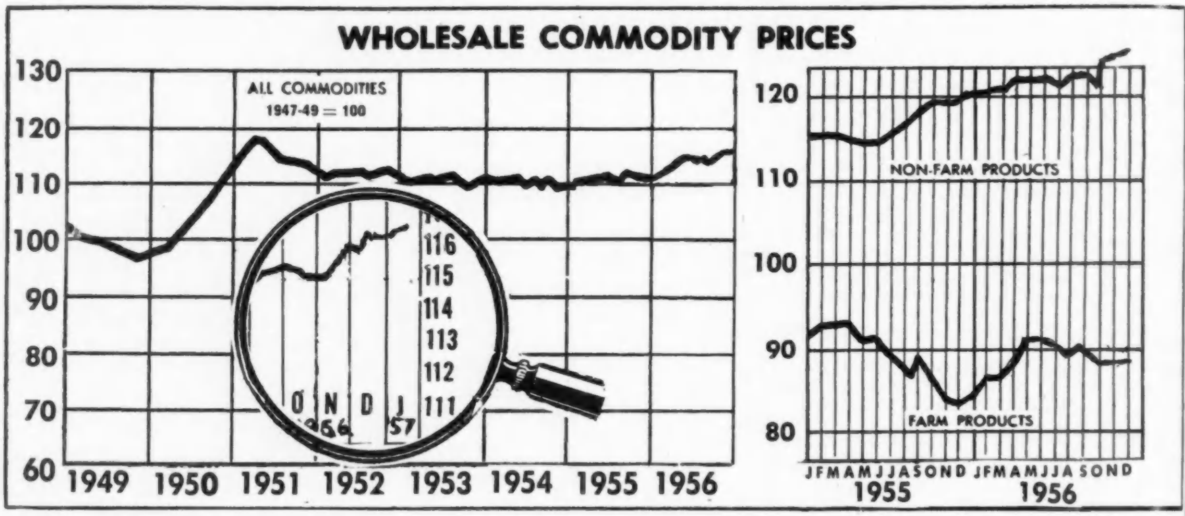
(Nov. 14, 1936 Cl.—100)	High	Low	1957 Jan. 11	1957 Jan. 18
100 High Priced Stocks	244.6	209.2	230.7	221.6
100 Low Priced Stocks	415.8	378.9	415.8	403.8
4 Gold Mining	882.7	637.9	706.4	713.0
4 Investment Trusts	171.2	150.8	168.3	165.0
3 Liquor ('27 Cl.—100)	1076.2	954.4	1034.8	1024.9
9 Machinery	523.4	370.4	523.4	492.6
3 Mail Order	217.3	169.5	174.6	169.5L
4 Meat Packing	170.7	127.7	142.6	137.0
5 Metal Fabr. ('53 Cl.—100)	213.2	183.3	190.7	186.9
10 Metals, Miscellaneous	464.9	383.1	420.9	404.7
4 Paper	1312.3	997.3	1060.1	1008.1
22 Petroleum	872.3	675.8	832.0	790.8
21 Public Utilities	264.0	246.4	253.8	253.8
7 Railroad Equipment	95.1	84.3	91.4	88.7
20 Railroads	82.0	69.8	72.7	69.0
3 Soft Drinks	544.8	423.1	457.5	458.4
12 Steel & Iron	393.0	283.8	385.1	353.7
4 Sugar	107.4	60.1	107.4	106.4
2 Sulphur	950.2	758.4	874.2	832.2
11 Television ('27 Cl.—100)	44.5	33.6	34.9	33.6
5 Textiles	184.4	138.3	149.9	144.3
3 Tires & Rubber	201.0	169.6	178.9	169.6L
5 Tobacco	96.7	85.3	88.7	87.9
2 Variety Stores	298.8	258.2	271.1	271.1
15 Unclassif'd ('49 Cl.—100)	164.2	144.8	162.9	156.8

L—New Low for 1956-57.

Trend of Commodities

SPOT MARKETS – Prices of most sensitive commodities have continued to retreat in the early weeks of January. The Bureau of Labor Statistics' index of 22 leading commodities fell 0.7% in the two weeks ending January 17, with industrial materials and metals suffering the biggest declines. Among industrial materials, lower quotations were seen for scrap copper, rubber and steel scrap. The decline in the latter has been going on for som time, a pretty clear indication that the supply of many types of steel has caught up with demand. The general downtrend of sensitive industrial commodities coupled with a more than seasonal decline in commercial bank loans, indicate that businessmen may be starting to liquidate inventories, which are top-heavy in many lines.

FUTURES MARKETS – Futures prices followed divergent trends in the two weeks ending January 18. Domestic futures were mostly firm, while acute weakness was witnessed in such imported commodities as cocoa and rubber. Wheat prices worked higher in the period under review, with the weather getting major credit for the advance. Wind storms in the Great Plains and dramatization of the drought situation by the President's visit to afflicted areas, brought buyers into the market. Total wheat supplies are high at present, although a good part of the crop is either owned by the Commodity Credit Corporation or has been placed in the support program. However, with market prices holding above loan levels, farmers can profitably withdraw wheat from the loan, for sale in the open market. This should act as a check on price advances.



BLS PRICE INDEXES
1947-49—100

	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 15	116.6	116.4	111.9	60.2
Farm Products	Jan. 15	89.0	88.4	84.1	51.0
Non-Farm Products	Jan. 15	124.9	124.7	120.4	67.0
22 Basic Commodities	Jan. 17	91.9	92.5	88.3	53.0
9 Foods	Jan. 17	84.0	83.5	74.1	46.5
13 Raw Ind'l. Materials	Jan. 17	97.6	99.1	99.5	58.3
5 Metals	Jan. 17	120.3	122.6	126.8	54.6
4 Textiles	Jan. 17	85.1	85.5	80.4	56.3

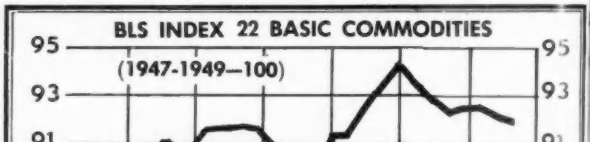
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0   Dec. 6, 1941—85.0

	1956	1955	1953	1951	1945	1941
High of Year	169.8	164.7	162.2	215.4	98.9	85.7
Low of Year	163.1	153.6	147.9	176.4	96.7	74.3
Close of Year		164.7	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1956	1955	1953	1951	1945	1941
High of Year	166.7	173.6	166.5	214.5	106.4	84.6
Low of Year	149.8	150.7	153.8	174.8	93.9	55.5
Close of Year		153.1	166.8	189.4	105.9	84.1




All our
customers aren't in
one market basket

One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.

Chessie looks to the future

1956 was a year of significant growth for Chesapeake and Ohio. But 1957 should be an even better year as Chessie's Railroad continues growing and going.

Last year over $90 million went into new freight cars, new diesels, new ore and coal piers, new yards, new signal systems – and more than half of this vast capital expenditure was paid for in cash out of the Company treasury. This year's plan provides for even more improvements and new equipment, including $70 million for more new freight cars.

Three out of every ten coal cars loaded at C&O mines are for shipment overseas, with every indication of increasing coal exports through the years ahead.

All of this expansion means better and faster service for C&O customers. Chessie's growth keeps pace with the steadily mounting demands for coal from the steel, electric and chemical industries. A million tons of American coal weekly are going to fuel-hungry Europe. New, efficient facilities will better serve the healthy growth of present industries and attract new industries to the rich territory which C&O serves.

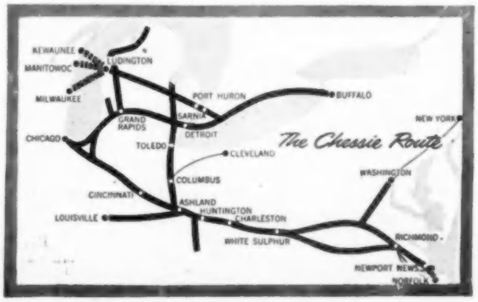
Nor has Chesapeake and Ohio expansion been confined to its 5100 miles of rail line. It is reaching into the air with a $3 million investment in Slick Airways, Inc., nationwide and international air freight carrier; and to sea through its partnership in American Coal Shipping, Inc., a $50 million corporation to advance the export of coal.

With improvements totaling more than a half billion dollars during the last decade, Chesapeake and Ohio is already practically a new railroad. But with faith in the future, Chessie's railroad is planning, working and spending to keep its place in the forefront of transportation progress.

Would you like a copy of C&O's 1956 Annual Report? Write to:

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Carrier Corp.

"I am a subscriber to your valued magazine and would appreciate receiving recent data on Carrier Corp. and please include backlog of orders and working capital position."

B. J., St. Louis, Mo.

Carrier Corp., a leading manufacturer of air-conditioning, refrigeration and heating equipment, established new high records in earnings, sales and orders booked during its fiscal year ended October 31, 1956.

Net profit was $9,369,000, or $5.26 per share of common stock. The comparable figures for fiscal 1955 were $8,487,000 and $4.82, respectively.

Net sales were $193,194,000, compared with $190,015,000 for the previous fiscal year. Included in the latter figure was approximately $36.5 million of shipments under a single defense contract, whereas no major Government work was done in fiscal 1956.

New orders were booked during fiscal 1956 in the amount of $214,420,000. The comparable figure for the previous 12-month period, exclusive of the government contract mentioned above, was $162,043,000.

As of October 31, 1956, the corporation had a backlog of unfilled orders amounting to $69,431,000, an increase of $21,226,000, or 44%, over the total a year earlier.

Carrier entered fiscal 1957 with the largest backlog of unfilled orders that it has ever had at that time of the year. This augurs well for the new fiscal year, which began November 1.

The budget for fiscal 1957 calls for an increase of approximately 20% in net sales. However, the highly competitive situation throughout the industry—together with still-rising material and labor costs—will make it difficult to improve profits proportionately.

The company is seeking a substantially larger volume of sales in the relatively near future and, accordingly, an expansion and improvement program also is underway, at an estimated cost, spread over the next two or three years, of approximately $30 million over and above normal capital expenditures. Of this amount, $16.5 million already has been assigned to specific projects, including new research, development, production and administration facilities at the headquarters of the corporation in Syracuse, N. Y., and also a new plant in the Los Angeles area on the Pacific Coast.

At the end of fiscal 1956, working capital amounted to $68,578,000 and net fixed assets stood at $33,752,000. Both amounts are exclusive of $9.5 million of funds segregated for expansion and improvement purposes. The comparable figures a year earlier were $67,981,000 of working capital, $27,369,000 of fixed assets and $12.5 million of segregated funds. Dividends in 1956 totaled $2.40 per share, against $2.35 in 1955.

Armstrong Rubber Co.

"I am a subscriber to your magazine and would appreciate receiving late data on Armstrong Rubber Co. and include prospects for the company over coming months."

R. D., Lewiston, Ida.

Armstrong Rubber Co. is a leading manufacturer of tires for the replacement market and of foam rubber and allied products. Net income reached a higher level for the fiscal year ended September 30, 1956, than in the previous year, despite interruptions in production, the incurrence of unusual costs and intensified competition for the replacement market.

Consolidated net sales of the company and its wholly-owned subsidiaries for the fiscal year ended September 30, 1956, totaled $71,313,421, an increase of $2,331,555 or 3.4% over the previous record of $68,981,866 in the 1955 fiscal year. These figures do not include results from the company's 50% owned affiliate, Armstrong Tire & Rubber Co. of Natchez, Miss. Combined net sales of Armstrong Rubber and its affiliate, eliminating inter-company sales, amounted to $90,121,645, an increase of 7.6% from sales of $83,783,171 in the previous fiscal year.

Consolidated earnings, after provision for Federal income taxes, amounted to $2,797,96[illegible], equal to $1.80 per share on the 1,553,886 common shares outstanding on September 30, 1956. The 1956 net income was the second highest in the company's history. For the previous fiscal year, consolidated net income amounted to $2,734,133, equal after dividends on the preferred stock which was retired July [illegible] 1955, to $1.74 per share, adjusted for shares out last September.

The financial statements of the company's 50% owned affiliate, Armstrong Tire & Rubber Co., and Copolymer Rubber & Chemical Corp., in which Armstrong Rubber has a 28.6% interest, are not consolidated with those of the company. The net income of these affiliates amounted to $4,008,362 for the 1956 fiscal year. After deducting dividends of $258,000, received during the year, Armstrong Rubber's equity in these earnings totaled $1,089,756, equal to 70 cents per share on Armstrong common stock.

The company believes the market potential for tires in fiscal 1957 should be better than ever as business in general is expected to be good. An increase in motor-vehicle registration and a larger replacement market resulting from the record number of new cars sold in 1955 should help. The rise in new-car production should relieve some of the intensive competitive pressure on the replacement market. The new $50 billion highway-building program should provide another stimulus to the continued long-term growth in tire sales. Thus, Armstrong expects to achieve higher sales in 1957 and these should be accompanied by satisfactory earnings.

Dividends on the class A common stock currently are 25 cents quarterly.

Bendix Aviation Corp.

"Please report a breakdown of Bendix Aviation Corp. sales in major categories and please submit recent earnings, backlog and outlook over coming months."
T. R., Sandusky, Ohio

A breakdown of Bendix Aviation Corp. sales in major categories for the fiscal year ended September 30, 1956 was as follows: Aviation products again represented 63%, automotive products 18%—down 2% and industrial, consumer and miscellaneous military products 19%—up 2% from the previous year.

Total Bendix production for the armed services and Government in 1956 represented exactly the same percentage, 69%, as in 1955.

Net sales, royalties and other operations of Bendix Aviation Corp., for the fiscal year ended September 30, 1956, were $581,-419,734, compared to $567,249,-423 for the previous year. Earnings for the year were $24,278,263, or $5.04 per share, compared with $25,888,599, or $5.39 per share, in 1955, on the present number of shares outstanding.

A large number of starting-up programs on new products and substantial rearrangement associated with moving into numerous new engineering expansions had an impact on the year's operations.

The corporation's backlog of unfilled orders increased during the latter months of the fiscal year and stood at $544 million at September 30, compared with $480 million at the end of the previous year.

The gain was almost entirely in the aviation field, but included both military and commercial branches. One of the most encouraging trends is the steady expansion of Bendix sales to the commercial aviation market, both transport and executive for business aviation.

An analysis of the backlog in sales potentials in its major fields indicates that a higher sales volume can be anticipated during the coming year.

The company is expanding in the electronics field and in terms of finished products utilizing electronic circuitries or controls, it constitutes at least 40% of the corporation's output.

After payment of cash dividends of $2.40 per common share in 1956, earnings retained for use in the business were $12,876,006. During the fiscal year, expenditures for new capital facilities amounted to $17.6 million, as compared with $10.5 million in fiscal 1955, and at September 30, 1956, it had additional commitments of about $9 million.

Net working capital at September 30, 1956 was $112,560,229, compared with $111,060,646 at September 30, 1955.

The company is active in atomic energy developments.

Bendix holds a prime contract with the Atomic Energy Commission. Its Kansas City division plant represents a $50 million Government investment and this plant now is completing its eighth year of successful operation. Its resources of skilled manpower and modern machines, together with the most advanced technology, are devoted exclusively to the atomic weapons program of the Commission.

The plant manufactures and assembles a wide variety of complex electronic, electro-mechanical and mechanical devices. It functions under the jurisdiction of the Kansas City Area Office, which is part of the Commission's Albuquerque operations. Changes in nuclear weapons to meet technological advances and military requirements are frequent and the divisions must remain in constant readiness to incorporate these changes whenever necessary.

Among new products the company is developing are electronic fuel injection for automobiles, automatic flight-control systems, navigational computers, air data computers for the aircraft field and several other important devices and systems which reached the marketing stage during 1956.

A stock dividend of 5% was paid in 1956 in addition to $2.40 in cash. END

Appraising the President's Budget

(*Continued from page* 569)

Under these circumstances, a significantly larger volume of spending by the Federal Government must preempt production and capacity from civilian uses—and in the process it must bid up the prices of these goods and facilities. It is doubtful that Federal Reseve credit policy, which has been extremely helpful in limiting this bidding-up process over the past year, can effectively restrain prices in the face of further substantial increases in government spending.

Why, then, must Government spending rise? It need not, of course. But to prevent it will take more than the voices of a few stalwart economy-minded senators. It will take, instead, a concerted attack by the American people on the habits and dependencies incurred over two decades. It will take an end of porkbarrel legislation designed to strengthen political fences. It will taken an end of pressure groups of veterans, business men, farmers—the host of special interests that descend annually on Washington to increase spending in this direction and that direction. It will take the outspoken conviction of those who believe, as the Administration was *believed* to believe, that big Government, big spending and big taxing will eventually sicken and kill that very marvel of productive efficiency on whose continued health the whole world now depends. END

Companies to Receive Major Defense Orders

(*Continued from page* 572)

production. The Navy is planning to convert 22 cruisers to Terrier use. An improved model now is in production. Seventeen destroyers will be converted for the Tartar. Production costs of these weapons are reported to be from $20,000 to $30,000.

Convair is building the Atlas, the top-priority intercontinental ballistic missile. Vast sums already have been spent on its development. Much more will be spent before it is completed—probably five to eight years from now. Convair is completing a $40 million plant this year, primarily for Atlas.

Boom in Missiles

Bendix Aviation Corp. has the contract for the Talos surface-to-air missile. It will be installed on eight large cruisers. If it is adopted to defend airbases and other land installations, expenditures would approach nine figures. Present production cost is reported to be around $40,000.

The two Army surface-to-surface missiles, the Corporal, built by Firestone, and the Honest John, built by Douglas Aircraft and Emerson Electric, seem destined for greater use and larger expenditures.

An improved Matador, made by Glenn L. Martin is scheduled for greater production. Its initial development costs already have been written off. It may be the first missile to be placed in wing strength by the Air Force.

The 1,500-mile intermediate ballistic missile Thor, under contract with Douglas, may be continued on a cautious basis. A competing model, the Jupiter, being developed by Chrysler may not be.

The small deady air-to-air Sidewinder, developed by the Navy and under contract to Philco Corp., is due for enlarged production. General Electric will be the second source. Costing around $4,000 now, the Bureau of Ordnance hopes to produce an improved model at around $1,000 when it becomes operational for the Air Force also.

The Falcon air-to-air missile is effective, but an expensive and complicated weapon. Hughes Aircraft will be fortunate to receive any substantial orders for it in the future. The Navy air-to-air missile Sparrow now made by Raytheon Corp., may not be expanded for further operational status.

Over a billion has been spent for the production and installation of the Nike surface-to-air missile under Army supervision. Douglas and Western Electric, manufacturing subsidiary, of American Telephone & Telegraph, built most of this weapon system. A number of firms furnished installation equipment. Newer and simpler weapons appear to be superior to latest model of the Nike.

Northrop's Snark

The intercontinental "air-breathing" Snark built by Northorp Aircraft has been given a cautious approval by the Air Force. Over $600 million has been spent on the development of this weapon. Production models are expected to cost $200,000. Some Air Force officials hope to establish a wing of 200. It is long-range and accurate. Its drawbacks are its speed and ceiling.

The 5,000-mile Snark has been scheduled for assignment to Strategic Air Command units. This will be, at least initially, on a limited basis for operational test programs. The first of these should be delivered in about a year. Whatever its drawbacks, the Snark is here while other missiles of intercontinental range will not be ready for operational units for a few years. It is 69 feet long and has swept wings. Powered by the Pratt & Whitney J-57 it travels en route to enemy targets at subsonic speed—about 600 miles per hour. However, it becomes supersonic when it dives at the target.

North American's Navaho

The Mach 3 intercontinental Navaho developed by North American Aviation is being scrutinized by top Pentagon officials because of its high cost and gigantic size. Launching sites have been estimated to cost $100 million each. The enormous ramjet engines for this bi-motored weapon, being de-

signed by Curtiss-Wright may be delayed until this survey is completed. Some Pentagon military officials want to hold this weapon in reserve until the effectiveness of the Snark is determined.

The electronic group of defense contractors should have an increased share of the defense budget. The computers, radar, sonar avionics, guiding systems and communication equipment are a necessary adjunct to modern military effort. Such firms as Radio Corp. of America, Philco, Bendix, International Business Machines, Sperry Rand, Western Electric and Hughes Aircraft should receive much military business in their specialized field.

Senator Symington's committee report may influence some Congressmen to urge increased expenditures for guided missiles and research. Of more effect on the total military appropriation could be Senator Byrd's comment that continued and heavy Government spending will have "a terrible and disastrous effect on our nation's economy." END

1957 Import-Export Trade Outlook

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consequence of the sharp rise in freight rates. Except possibly in Spain, U. S. defense spending probably will show no great change. With more surplus food and agricultural raw materials moving abroad, grant assistance and loans – including those of the Export-Import Bank—are expected to increase over 1956. The U.S. Government may need to shore up those foreign countries that run short of dollars to buy petroleum products.

The net outflow of U.S. private investment capital was extra large in 1956: Around $2.5 billion, as against only $1.1 billion in 1955. Western Europe saw many more American branch plants established; in Venezuela, large amounts of money were spent for concessions and exploration; an oil company in Trinidad was acquired, and money was invested in the International Finance Corp. Above all, however, Canada attracted huge capital funds for the development of natural resources; the construction of the trans-continental gas pipeline also required U.S. capital investment. More money than usual went into purchases of Canadian securities of all sorts.

As result of the Suez crisis, petroleum developments in the Middle East are expected to slow down, but by the same token there probably will be more exploration and development activity elsewhere. Venezuela again is expected to be one of the chief beneficiaries. More caution probably will be displayed by American corporations in enlarging their branch plants abroad, with Canada and some Latin American countries excepted. Purchases of Canadian securities are likely to be geared to stock-market developments here. All in all, however, the outflow of private U.S. capital abroad is unlikely to be as large this year as in 1956.

Outlook for Exports

It would seem from the prospects, detailed in above paragraphs, that foreign countries will have more than $25 billion – slightly more than in 1956—available for spending this year. This fact alone makes many forecasters confident that 1957 exports should establish another record, possibly around the $18 billion level – some $1 billion more than last year.

They point out that the inflationary tendency is continuing in this country and that another 2% rise in prices may alone add around $350 million to the 1957 export total. They also point out that there are likely to be substantial increases in petroleum and coal exports.

But the situation is not as simple as it seems. It was already noted that Venezuela, rather than the United States, may be the chief beneficiary of increased petroleum exports from the Western Hemisphere. Second, there are already many indications at hand that foreign countries will be mighty cautious this year how they spend their dollars. Many of them are in balance-of-payments difficulties, and their gold and dollar holdings have been drawn down. Also foreign countries are faced with a much heavier shipping bill, not only because of higher freight rates but also because much of the coal and petroleum is being carried in American bottoms. Last year's export developments, too, are likely to shed some light as to what may happen to this year's exports.

(*Please turn to next page*)

1957 Import-Export Trade Outlook

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Of special interest was the increase in our exports of industrial machinery which, at almost $2.1 billion, were some half billion larger than in 1955. The increase reflected booming industrial conditions abroad, with plant expansion and modernization being pushed everywhere. The biggest gain was scored by exports of construction, excavating and mining machinery, which practically doubled in the past three years. Passenger-car exports last year actually were down from the 1955 level, having been the first to be hit by restrictions on foreign-exchange spending. They also are facing stiffer competition from foreign products, as are exports of farm equipment and electrical appliances. The decline in passenger-car exports was, however, more than offset by heavier shipments of motor trucks and car accessories.

Sharp increases were scored in coal exports, which approached the $750 million level, and by exports of steel mill products, steel scrap, and non-ferrous metals, reflecting Western European shortage of fuel and basic industrial raw materials even before the Suez crisis. Exports of paper products and textiles barely held their own. In contrast, the agricultural surplus disposal program helped to lift exports of farm products, making the year 1956 one of the best on record. Cotton recovered materially during the second half of 1956, but it is significant of the times that they are not much more important than our exports of synthetic fibers and their finished products.

As to the prospects for 1957 exports, it seems that the increases will not be as well distributed over most categories and commodities as they were in 1956. Coal shipments will unquestionably establish a new record, and petroleum shipments may be considerably heavier. Farm exports should also be up materially, though they are likely to bring only a limited amount of dollars. With plant equipment and new-construction spending still going up all over the world, the exports of industrial machinery, and of road and mining equipment in particular, should continue to expand. The booming German and Japanese industries may need more steel mill products.

Luxury Items Face Decline

On the other hand, exports of non-essentials and luxury items such as passenger cars, household appliances, textiles, paper products are likely to be less. Briefly, our customers will be more selective. This is also indicated by export prospects by countries. With plant and equipment investments still rising in Canada, our 1957 exports to Canada should exceed the 1956 record of almost $5 billion. Most of Latin America and Japan should keep up their purchases here. On the other hand, Western Europe, with the single exception of Western Germany, is bound to be more selective and cautious in its purchases. Much the same is likely to be true about the sterling area countries, the Middle East and Southeast Asia.

If our exports actually reach the $18 billion level in 1957, foreign countries may have very little left to add to their gold and dollar assets after taking care of interest and dividend service, and other payments. Actually a small decline in foreign-owned gold and dollar assets already was reported during the last quarter of 1956. It goes without saying that dipping into their reserves will make foreign countries cautious about their purchases.

In general, the size of dollar availabilities and business outlook in this country make the foreign trade prospects in 1957 still look good. Both exports and imports may establish new records, but the phenomenal increases recorded in 1956 are unlikely to be repeated. Long-range repercussions of the Suez crisis may be worse than the immediate upsets to the movement of international trade. Ultra-nationalism of the new countries of the Middle East and the resumption of the "cold war" may be additional handicaps, but the Free World has learned to take them in its stride. It is unlikely that they can hold back permanently the dynamic rise of production and productivity throughout the Free World and the expanding exchange of goods. END

Year-end Corporate Statements

(*Continued from page* 585)

getting a boost in 1956, more this year and yet more in 1958.

While the pinch was severe enough in companies where volume was rising, it was numbing in those fields that were hit by declining business. The television industry is a prime example of this. In that field, where the mortality toll has been high of late, production and retail sales of TV sets declined in November from October. Sales slid to 560,000 sets from 684,000 in October and 591,000 in the year-ago month.

Many factors in the chemical industry also were hit by declining sales and profits. Indeed, even where sales rose, the decline in net was not uncommon. Thus, Dow Chemical Co. in the three months to November 30, 1956, registered sales of $156.5 million, compared with only $144.8 million in the year-ago quarter. Yet in the latest quarter net profit totaled only $13,290,000, or 54 cents a share, compared with $16,616,000, equal to 71 cents a share, in the three months ended November 30, 1955.

Tight money, which had a considerable impact on corporate planning in the latter part of 1956, is expected to be even more effective this year. Moreover, it could begin to exert substantial pressure on consumers, especially those in the market for automobiles and homes.

Problem of Inventories

Inventories also are expected to prove more troublesome, especially in steel and a number of consumer lines, notably appliances. They are less burdensome this year in the automotive trade, but they could reach considerable proportions by spring if demand for cars does not take hold.

Herewith are brief but concise comments on the showings of several companies included in the accompanying table. Their selection for comment has been made on the basis of broad investment interest in these companies:

RAYONIER, INC. — Preliminary figures of Rayonier showed this

chemical cellulose company turned in the second best year in its history, although sales and earnings were under 1955's all-time peak. Net profit for 1956 totaled $13,975,000, or $2.65 a common share, compared with $15,918,000 and $2.87 a share in 1955. Sales last year declined to $137.9 million from $142,521,000 in 1955.

This foremost producer of chemical cellulose has a major stake in the textile field. The recession in the rayon industry had an adverse impact on Rayonier. Rising foreign demand has been an important offset to the lowered demand in domestic markets.

The company's second 100,000-ton mill at Jesup, Ga., under construction since 1955, is scheduled to be completed and on stream late this year. This is Rayonier's eighth chemical cellulose mill. Together with expanded production at the other plants, it would raise total capacity beyond 915,000 tons a year. This is far beyond the total tonnage sales of chemical cellulose, paper and fine papers in 1956, amounting to 693,000 tons. Also, its Canadian subsidiary, Alaska Pine & Cellulose, sustained a decline last year in sales of lumber and shingles.

CATERPILLAR TRACTOR CO.—One of the outstanding companies of 1956, Caterpillar registered record sales and profits. Higher sales resulted from continued demand for all products the construction-machinery maker turns out. Indeed, at the end of the year, demand for most products justified their manufacture at maximum capacity.

Earnings for 1956 were equal to $6.08 a common share, compared with $4.18 in 1955. Shares outstanding at the close of 1956 were 8,954,439, up from 8,367,710 in 1955 and reflecting the sale of 500,000 common shares in April. Sales totaled $685,940,000, some 29% above the 1955 total of $533,038,000. Net was up 54% to $55,404,000 from $35,953,000.

This showing is all the more impressive when it is considered that sales in the last half of 1956 were hobbled by a shortage of steel, particularly plates and structurals, and by a three-day strike at its Peoria and Decatur plants. Last month the company revealed plans for a new factory, research center and office headquarters to be erected outside Peoria.

DOUGLAS AIRCRAFT CO., INC.—This leader of the aircraft industry was able, in the fiscal year that ended November 30, to better sales and earnings, but again the profit margin declined. It fell to 3.1% from 3.2% in 1955 which, in turn, was down from the 3.9% of 1954.

Net earnings in the latest fiscal year rose to $33.2 million, or $8.96 a share, compared with $28.2 million, or $7.65 a share, in 1955. Sales rose to $1,073,515,000, highest in the company's history, from $867.5 million in 1955. Douglas backlog on December 31 totaled $2,232,000,000, a slight increase from the $2,138,000,000 figure for the like date in 1955. The backlog, unusual for this industry, is split almost evenly between military and commercial orders. Indeed, commercial business, much of it jet aircraft for airlines, has a slight edge. All signs point to a further rise in the Douglas backlog this year.

The company plans to raise $25 million to $30 million of capital funds through an issue of convertible subordinated debentures. Proceeds would be used partly to put DC-8 jet airliners into production, and to finance outlays for plant and facilities expansion.

INTERNATIONAL HARVESTER CO.—Net profit of this farm-equipment kingpin declined during 1956 (year ended October 31) despite a 7.4% sales increase from the preceding year. Net amounted to $49,619,000, or $3.16 a share, compared with $55,501,000, or $3.60 a share, a year earlier. Sales for 1956 amounted to $1,252,079,000, up from $1,165,785,000 in 1955.

The sales increase was made despite a general decline in farm-equipment sales in 1956. Record sales of this diversified company, in such fields as motor trucks and construction-equipment products, including service parts, offset the slide in farm machinery.

Harvester last year gave up one of its diverse interests, selling its refrigerator division to Whirlpool-Seeger Corp. As a result, refrigeration products volume totaled $7,682,000, down from $55,463,000 in 1955. Defense sales also declined sharply. END

Is Sugar Boom Petering Out?

(*Continued from page* 587)

available for other countries.

The drop in world sugar prices to around the 3¼-cent level, following the sharp rise during the Korean War, influenced production cutbacks in a number of countries other than Cuba. These now are benefiting from the doubling of prices within the short space of a few months.

At the moment, the talk throughout the world sugar trade is of shortages, which existed, although all but unnoticed, when sugar was selling for half its current price.

Traditionally, sugar is what commodity traders call a "sleeper." Prices will fluctuate only slightly at low levels over a period of several years, even though slgnificant adjustments in production and stocks may be underway. Then, suddenly, the markets will come to life with a bang and prices will rise rapidly. Then follows the familiar routine of increased production in response to price markups, possibly some curtailment of consumption, accumulation of stocks and, of course, price declines until a low point of stabilization is reached. Then, with varying intervals of time, the process repeats.

Grinding of the 1957 Cuban sugar crop is just getting underway, and will be completed in May. Current high world sugar prices are hardly likely to result in any particular increase in world cane production this year, although beet sugar production may be stimulated somewhat. The 1958 crop, however, will be influenced, but it may be 1959 before the full impetus is registered.

Effect On Consumption

Customarily, a sharp advance in the price of any particular commodity brings supplies out of hiding that were not known to exist previously. It is a virtual certainty that current world sugar prices will result in more supplies becoming available for export from a number of countries than had been expected. These supplies will help to meet the current stepped-up demand but will not be sufficient to satisfy it.

The use of sugar, like that of most commodities, tends to expand and contract in the opposite direction of price changes. The elasticity of demand for sugar is not sufficiently high, however, to effect enough of a change in supply to bring about a major price readjustment. That adjustment traditionally has come primarily from growers' response to price changes.

Here in the United States, where the rise in sugar prices has been small in comparison with the world sugar price rise, consumption is unlikely to be adversely influenced to any appreciable extent, particularly if the uptrend in consumer income continues.

For candy manufacturers, fruit canners, commercial bakers and others who consume large quantities of sugar, the advance in domestic sugar prices is just one more increase in costs of production to intensify the cost-price squeeze. It is becoming increasingly difficult to pass along to the consuming public increased costs of production without cutting into sales volume.

Abroad, the price rise will be felt much more than here, although a number of countries impose such stiff import duties on sugar that the doubling of prices in the world primary markets becomes a much smaller percentage increase in consumer prices. High prices, dependent upon whether international tension eases, will bring some sugar out of hoards, previously counted as "disappearance" or consumption.

Undoubtedly, there will be an increased use of sugar "substitutes," such as corn syrup and other syrups.

International Sugar Council

The aim of the International Sugar Agreement, under which the Council operates, is to stabilize world sugar prices at 3¼ cents to 4¼ cents per pound, Cuba. The primary method of accomplishing this is through the assignment of export quotas to member countries with basic export tonnages.

The Council during recent years attained a measure of success, at the low end of the price range, but only through cutting back export quotas as Europe increased its beet-sugar production. In 1956, beet-sugar production fell off in a number of countries

Statistical Summary

CUBAN-DOMINICAN PRODUCERS
Central Violeta Sugar
Cuban American Sugar
Cuban Atlantic Sugar
Francisco Sugar
Guantanamo Sugar
Manati Sugar
Vertientes-Camaguey
West Indies Sugar
PUERTO RICAN PRODUCERS
Central Aguirre Sugar
Fajardo Sugar
South Porto Rico Sugar
BEET SUGAR PRODUCERS
American Crystal Sugar
Great Western Sugar
Holly Sugar
REFINERS
American Sugar Refining
National Sugar Refining

*—1955-6, 1954-5 fiscal years respectively.
na—Not available.
¹—Six months to June 30, 1956.

with resultant heightened import requirements.

The sudden rise in world sugar prices and the development of sugar shortages, as opposed to surpluses, has tended to nullify the influence of the Council to some extent.

At this juncture, there is no way of telling what degree of comparative stability in sugar prices can be expected in the months ahead.

What Measure of Stability?

Barring a general commodity price deflation, a possibility that can not be ignored completely despite the widespread prevalence of inflationary beliefs, it is quite likely that sugar prices will flatten out moderately below recent highs but far above last Summer's low levels.

There are no definite indications as yet to what extent the European beet-sugar crop may be increased this year, although it will be increased, weather permitting. A substantial increase in the beet crop, coming on the market in the third quarter of this year, could exert considerable depressing influence on world sugar prices.

of Sugar Companies

Fiscal Years Ended	Net Sales 1956* (Millions)	Net Sales 1955* (Millions)	Net Profit Margins 1956*	Net Profit Margins 1955*	Net Per Share 1956*	Net Per Share 1955*	Indicated Current Dividend	Dv. Yield	Recent Price	Price Range 1956-7
9/30	$ 6.5	$ 6.5	7.4%	3.2%	$1.71	$ .73	$1.15	5.4%	21⅜	22½-13½
9/30	51.6	41.0	5.3	2.4	3.30	1.18	1.25	4.8	26¼	26¼-14⅞
9/30	71.3	67.3	4.6	4.6	1.64	1.54	1.00	4.6	22	22½-13⅛
6/30	na	8.7	na	4.0	na	.99	.25	1.6	15⅜	15⅞- 8½
9/30	4.9	4.6	4.0	2.6	.48	.29	.20	2.0	10	10¼- 5⅜
6/30	10.4	9.5	2.6	1.2	.62	.25	......		9⅞	10 - 4¾
9/30	16.6	16.3	7.6	6.3	.86	.71	.86	6.3	13¾	14¼- 7
9/30	29.7	29.3	4.0	4.9	1.15	1.41	1.00	2.1	47⅞	46¼-20⅝
7/31	12.5	12.1	10.8	7.4	1.82	1.21	1.40	6.6	21⅛	21⅜-17
7/31	13.1	13.9	1.9	1.5	.68	.58	.80	5.1	15⅝	16 -10⅞
9/30	33.2	28.5	9.4	8.6	2.93	2.19	1.90	4.9	38¾	39¾-24¾
3/31	46.4	42.8	3.3	2.9	3.45	2.62	1.20	3.1	38½	39½-27⅛
2/28	75.0	74.5	5.3	5.7	1.62	1.78	1.45	6.7	21⅝	23½-19¼
3/31	51.1	55.5	3.4	3.9	2.47	3.10	1.20	5.5	22	23 -18½
12/31	157.5[a]	325.9	2.8[a]	2.5	6.31[a]	11.59	7.25	6.6	110	113 -87
12/31	38.7[a]	144.9	1.5[a]	1.3	1.81[a]	3.25	2.50	7.2	34½	39 -33¼

Regardless of the numerous imponderables, there appears to be little doubt that returns per pound to sugar producers in 1957 will be far above the levels of the past few years. And, although it is a long way to look ahead, good returns are likely for 1958, even though prices may not average as high as in 1957. For 1957, at least, rising labor and other production costs are expected to be far more than offset by the higher price average.

For the Investor

The companies likely to benefit most from the rise in world prices are those that aim a substantial part of their production at the world market.

In this category are Cuban American, Cuban Atlantic, Central Violeta, West Indies, South Puerto Rico, Fajardo and a number of others.

Domestic beet-sugar authorizations have been increased. This and the moderate increase in domestic prices, if maintained, should benefit American Crystal, Great Western and Holly, although not to anything like the same extent as offshore producers.

Sugar refiners, whose primary function is processing and merchandising, might not be expected to benefit from the price rise. In this connection, however, it is important to note that American Sugar Refining Co. has substantial production of its own in Cuba. Recently, when sugar prices were rising rapidly, the price of this stock rose 10 points in one trading session. END

1957 Re-appraisal of the Coal Stocks

(*Continued from page* 589)

fast-expanding population with electric requirements. Demand for power has doubled in the last decade and promises to double again in the coming 10 years or less. In spite of the longer-term outlook for competition from atomic power plants, it is difficult to visualize a threat to coal for a long time to come. No one knows how soon atomic power costs can be reduced to a level where they may be competitive with coal, but there seems little prospect of such a development in this country in the foreseeable future.

Mechanization in mining gained its greatest impetus at a time when the railroads were turning to diesels consuming oil. So long as steam locomotives were used, the railroads required large sizes of coal, but when the railroad market dwindled, mining companies were able to introduce continuous miners, augers and other mechanical aids which doubled the volume of output per man even though it broke the coal into smaller pieces. This development was all to the good for utilities, which prefer the smallest sizes of hard fuel for their stokers.

Bituminous Coal Recovers

Bituminous coal output dropped to an all-time low in 1954 at about 390 million tons from a post-war high of more than 600 million tons in 1947. The sharp drop reflected the trend toward dieselization in the railroad industry, as well as widespread adoption of oil in residential heating as a consequence of the advance in living standards. In time, as fuel-oil costs rose, electric companies turned back to coal, which advanced comparatively little for several years. Now consumption

1957 Re-appraisal of the Coal Stocks

(*Continued from page* 607)

of bituminous coal has recovered to more than 500 million tons annually and projections call for demands ranging from 80 million to a billion tons annually within the next two decades.

The strong trend toward mechanization in production and preparation, as well as transportation of coal, means that small producers face the threat of rising costs or the expense of installation of equipment. This situation indicates that the trend toward consolidations may gain momentum. Many small mines are not suitable for a changeover to continuous operations with the use of expensive equipment. Industry officials look for a gradual contraction in the number of independent operators. It is estimated there are more than 5,000 firms engaged in coal mining, and it has been suggested that perhaps a dozen or more strong, well-financed companies may emerge as the leading factors in a strongly-intrenched, growing industry over the next few years.

Of the many companies engaged in coal mining only about a dozen are publicly owned and have securities listed on leading exchanges. Most of these concerns have experienced difficult times in the last five or six years. For the most part their stocks have remained in disfavor with investors.

Major Factors in Industry

Pittsburgh Consolidation Coal is the largest representative of the soft-coal industry and it has solidified its competitive position in recent years through modernization of its mining facilities and through intensive research. It is well regarded by investors and has steadily improved its standing in financial markets. In addition to the pioneering in chemical research already mentioned, the company has sought to broaden its market by introducing economies in transportation. By construction of a coal pipeline through which hard fuel is floated from mine to point of consumption the company has demonstrated the practicability of movement of coal through a huge conveyor system. Steel producers and power companies account for upward of 60% of shipments, and the high rate of demand for coal from these sources helps explain satisfactory operations in 1956.

Pittston Co. has been expanding rapidly, not only in development of larger coal output but in expanding its distribution facilities. The company is actively engaged also in production of natural gas. Acquisition of Clinchfield Coal in the last year has enabled the company to speed its growth in hard fuel. Expenditures on new production exceeded $18,000,000 last year, an indication of management's confidence in enlargement of markets. Output rose about 30% in 1956 to about 10.5 million tons and it is expected that by 1960 productive capacity will have been raised to 20 million tons annually. Earnings increased in 1956 to an estimated $6 a share and it has been tentatively estimated that profits this year will increase to about $8 a share.

Island Creek Coal, another leader in the industry, bolstered its position with acquisition of Red Jacket Coal a year ago following consolidation with Pond Creek Pocahontas, with which it had long been associated. Sales rose sharply in the year just ended and net profit is estimated to have advanced to $4.25 a share from $3.17 for the preceding year.

Eastern Gas & Fuel Associates, once closely identified with the Koppers Co. and Mellon interests, is engaged principally in mining bituminous coal and converting it into gas, coke and into by-products. It operates primarily in New England, where competition from natural gas only recently has entered the picture. The company has experienced a strong comeback with earnings rising for the year just ended to an estimated $2.75 a share from $1.56 in 1955. Up until recently earnings had been comparatively modest except for a couple of years immediately after the war.

Other substantial interests in soft coal include Peabody, operating large stripping operations and mines in Illinois, Indiana and Kentucky: Truax-Traer, United Electric Coal Companies and West Kentucky Coal. In the anthracite field, the principal companies include Glen Alden, Lehigh Coal & Navigation, Lehigh Valley Coal and Philadelphia & Reading.

Stocks of the popular coal producers have recorded significant gains from the low levels recorded in the post-Korean slump. As a matter of fact, representative issues at current levels provide comparatively modest returns on prevailing dividends. Hence, even though the outlook for the industry seems reassuring at this time, it hardly would be fair to imply that the best known shares are on the bargain counter. Potentialities existing in eventual diversification in chemicals and other by-products of bituminous coal seem to have been discounted to a considerable degree.

Moreover, there is the threat of displacement at some time in the future of hard fuel by atomic power. The cost of producing nuclear energy far exceeds that of generating electricity by coal and unless uranium becomes more plentiful than at the moment the disparity in production costs may pose a problem for a long time to come. Atomic power has possibilities in some applications, however, so that this threat deserves some consideration as a restraining influence on enthusiasm for the near-term prospects of coal.

The Labor Situation

A discussion of the coal industry would not be complete without a few words on labor relations. Domination of operations by organized labor a decade or two ago proved a serious handicap in raising costs and giving tremendous advantages to petroleum. Conditions have been reversed, however, and labor leaders in more recent times have encouraged mechanization to enable the industry to restore its competitive advantages. Relations between management and labor have been especially harmonious for several years. There has been no cessation of mining as a result of a strike for seven years.

Impressive gains have been achieved in installation of safety measures and improving standards of production. In modern mines, facilities have been improved not only by inclusion of power tools, but also by construction of comfortable quarters at the mine head with air-conditioned rooms for changing clothes and for showering, etc.

The combination of efficient equipment and harmonious relations accounts in large measure for the steady rise in productivity and for better earnings results. Continuance of present trends toward consolidation of smaller, inefficient operations into large units and progress in perfection of automatic mining equipment should tend to minimize feast-or-famine characteristics of the industry and contribute a higher investment standard to leading stocks. END

Enterprise and Ingenuity Used to Overcome Suez Oil Jam

(*Continued from page* 575)

American industries now is ready to spend additional billions to push the search for new petroleum resources to the farthest corners of the earth. Spending henceforth, however, is likely to get a different geographic emphasis until a greater certainty of stability comes to the Mideast, which has received in the post-war decade a major share of oil investment.

While there is no tendency among the oil people to underestimate the crucial importance of Mideast oil to the Free World (after all, its output before the Suez crisis was some 3.7 million barrels daily, or about one-fourth of the Free World's total production), there is a strong feeling within the industry that sanctity of contract, by which the West lives in all its affairs, counts for less than ever before in the oil-rich region spanned by the Arabian Sea and the Mediterranean.

Taking up the manifold problems of the area, the executive vice-president of an oil company with one of the richest stakes in that part of the world constantly brought the interviewer back to that phrase: "You can't stress 'sanctity of contract' strongly enough." Other oil executives have been no less emphatic. Thus, Howard W. Page, a director of Standard Oil Co. (New Jersey), kingpin of the industry, wants our Government to issue "a firm, unequivocal statement," somewhat along these lines:

"Any government which, by unilateral action, abrogates, an agreement made by that government, may expect the United State, either singly, in conjunction with other countries, or through the United Nations, to take such economic measures and abrogate any agreements with the offending nation as the United States may see that the circumstances warrant."

In the view of Mr. Page, such a statement would tell other nations what we stand for. This scarcely describes the week-kneed policy of the State Department during 1956 when Nasser, in a fit of pique, seized the Suez Canal in defiance of his country's international agreements.

(In the August 18, 1956, issue of THE MAGAZINE attention was focused on this in *As I See It!* under title of "Sanctity of Agreement.")

Augustus C. Long, chairman of the board of The Texas Co., also feels deeply about "sanctity of contract." Listen to Mr. Long: "No competent management can afford to risk stockholders' funds in countries whose records are stained by broken contracts and instances of bad faith."

Egypt in recent days has been a prime example of the kind of country Mr. Long has cited. That Government has "Egyptianized" all British and French banks, and insurance companies. All other foreign banks and insurance companies (including United States interests) have been given five years before they too are to be "Egyptianized." This action virtually assures that all foreign financial interests will be driven out of that country unless the Nasser regime is overthrown.

With what the British would call "unadulterated cheek," Cairo, with tongue in cheek, has said the action does not affect foreign industrial enterprises in Egypt and, therefore, the Government hopes for an influx of more foreign capital and economic development!

Mideast: Curbed or Deferred?

While there is an understandable tendency within oil circles to talk all around the subject, there is no doubt that, in the present Mideast atmosphere, the companies have deferred – if not, indeed, curbed – their expansion plans in the area. Oil leaders were disturbed by a recent report from Lebanon that Arabian American Oil Co. had decided on a drastic downward revision of its development plans. This report stated that Aramco had decided already to cut spending during 1957 by $10 million, Aramco is owned 30% each by Standard of Jersey, Standard Oil Co. of California and Texas, with the remaining 10% belonging to Socony Mobil.

The Beirut report stated flatly that major oil companies operating in the region had called a halt on development projects that were not already far advanced.

(*Please turn to next page*)

Obviously worried about the reaction to this account in the oil-rich Arab lands, the story was soft-pedaled the next day by oil people, who said development projects may have been deferred because of Suez developments – but not abandoned. Yet a spokesman for one of the companies in the Aramco combine says:

"Aramco will think twice before it plows any more money into the Mideast. The issue is sanctity of contract."

And Aramco has had a lot of time to think about sanctity of contract, or rather its absence. The companies that compose Aramco, as an example, own in the same percentage the Trans-Arabian Pipeline Co., commonly known as Tapline. We stated in THE MAGAZINE of September 1, 1956:

"Tapline already is in serious trouble. In the Arab world of today, sanctity of contract counts for little, so the Government of Lebanon, cancelling all special conventions and exemptions, now has decreed that Tapline must pay taxes retroactive to January 1, 1952."

Tapline, of course, derives no income from Lebanon. It is an oil pipeline that stretches over a thousand miles of Arabian desert from Saudi Arabia to the Lebanese port of Sidon on the Mediterranean. More than 300,000 barrels of crude oil go through this pipe daily on the way to Europe. The Lebanese, along with the Saudi Arabs, Syrians and Jordanians, receive royalties based on the flow. At the recent rate of flow, Aramco saved on the order of $32 million a year by moving product through Tapline instead of the Suez Canal. Tapline offered to split the savings evenly among the four pipeline countries.

Apparently, this is not satisfactory and "the squeeze" is on. The oil companies are especially bitter about the maneuver in Lebanon, a land of traditionally shrewd traders, where Communism is a negligible influence. They are in no mood to take it lying down.

Quest for Oil Elsewhere

The oil people, of course, have learned over the years to live with some mighty difficult conditions in the Mideast. They have been forced to because, unlike manufacturers, they can't simply pick up and move elsewhere. Oil is where you find it. Finding a new plant site is simple, but it would be difficult to convince an oil producer that there is in this world another Kuwait. Although less than half the size of New Jersey, it has proven oil reserves of more than 40 billion barrels – greater than the 34.1 billion barrels calculated for all of North America.

This fantastic oil treasure (there are only slightly lesser ones on the Arabian peninsula) is shared equally by Gulf Oil and British Petroleum. It is scarcely an exaggeration to say that the oil of Kuwait is the lifeblood of Europe. For Gulf, it is the difference between being a medium-size producer and a giant of the first magnitude.

Gulf's Golconda

Gulf's share in this Golconda is on the order of 500,000 barrels daily. To lift Kuwaiti oil, Gulf maintains a large tanker fleet which hauls the major portion of this crude to its customers in the United Kingdom and Europe. But the present fleet is not enough, so Gulf has embarked on a construction program that would just about double its tonnage under the United States flag. It is calculated that the program, when completed in 1960, would give Gulf the biggest domestic tanker fleet.

Under its $114 million program of building and modernization, Gulf is committed to construction of four tankers, of 32,600 deadweight tons, six of the 29,500-ton class and the "jumboizing" of nine smaller tankers of World War II vintage.

While its Kuwait output was not hindered during the troubles in Egypt, since the British sheikdom is on the eastern side of the Arabian peninsula, Gulf is not unmindful that the Syrians, also remote from the Egyptian fighting, sabotaged the pumping stations of the Iraq Petroleum pipeline. Indeed, the situation in Syria, which appears to be in Moscow's hip pocket, and in Egypt, which plays Moscow's game, is giving the Gulf people some anxious moments.

If Gulf is filled with anxiety, it does not lack for plans either. The company is active in many corners of the world to lessen dependence on its oversize Kuwait stake. Besides its considerable stake in the United States, Gulf has production or concessions in such places as Cuba, British Honduras, the Barbadoes, Bahamas, Peru, Bolivia and the rich Lake Maracaibo region of Venezuela.

In the Eastern Hemisphere it has a stake in Mozambique, the Gold Coast, in Sicily and on the Italian mainland, and in France. Concessions are expected to be forthcoming in Libya, French West Africa, Spanish Guinea and Portuguese West Africa. Gulf, of course, is a member of the Iranian consortium. This is too close to the Arab troubles to provide much comfort. In any event, Gulf would like to reduce its dependence on that region, which accounts for more than half of its total net crude production.

Gulf's exploration program in 1956 involved expenditure of about $180 million. About $70 million of this was spent by its subsidiary, Mene Grande Oil Co., in acquiring new concessions covering large areas of Venezuela's Lake Maracaibo. This was in the nature of an unusual and non-recurring item, because last year was the only time in a decade or more that Venezuela offered to grant new concessions. Eliminating this $70 million item, which could lessen its dependence on the Mideast, the Gulf exploration program involved only $110 million. The exploration program for the current year involves about $125 million.

Calso Concentrates on West

Standard Oil of California has a tremendous stake in Araby, including its 30% interest in Aramco and a 7% interest in the Iranian consortium. It also has a half interest in Caltex Companies.

This year, Calso plans a record outlay of more than $400 million for capital and exploratory purposes in the Western Hemisphere. This figure surpasses the $365 million spent last year. Bulk of the 1957 expenditures–more than $250 million–again has been allocated to exploration for and development of crude oil producing properties. An estimated 75% to 80% of this figure will be expended in the United States, most of the balance in Canada and Latin America. Plainly, Calso hopes to step up sharply its West-

ern Hemisphere production to offset, at least partially, its vulnerable holdings in the Mideast.

Texaco: Genius or Good Luck?

Texas Co. people, who make no claim to clairvoyance or the retention of a tea-leaves reader, are congratulating themselves on a shrewd deal they made last year, acquiring the British-owned Trinidad Oil Co., Ltd. Negotiations for the $176 million purchase began in June of 1956 – before Nasser pushed the British out of Suez. Through the summer, Texaco executives pushed their proposal with company officials and representatives of the British and Trinidad governments. This is Trinidad Oil:

138,000 acres under lease on this island off the northeast tip of South America; an interest in offshore prospective acreage; crude production at about 27,000 barrels daily; 80,000 barrels a day of refining capacity; a petrochemical plant.

Trinidad Oil controls the brand name "Regent," third largest marketer in the United Kingdom.. It also entails 20,000 barrels a day of refining capacity near Toronto, plus several hundred service stations. And into the deal went a small fleet of ocean-going tankers.

The British, of course, still get Trinidad oil, but they must buy this sorely needed product for dollars.

For Texas Co., Trinidad is but part of a pattern that is developing away from the great dependence on the tense Mideast source of supply. Not that Texaco has given up on the Arabian peninsula – far from it – only that it has recognized the need to develop alternative sources of supply.

Texaco last year spent a record $325 million on its capital program – largely oil exploration. The sum probably will be topped in the current year, with rising emphasis on areas less critical than the turbulent Mideast. The company has been spending more money of late in South America.

The Texaco stake in the Mideast, although very substantial, is not quite as rich or as preponderant in the over-all scheme of things as with Gulf. As noted hitherto, it has a 30% interest in Aramco and Tapline. It also is a member of the Iranian consortium. Moreover, it owns, jointly with Standard of California, the Caltex Companies. Less sensitive Eastern Hemisphere concessions are in Libya and the Philippines.

In this hemisphere Texas holds two large reservations in the Pembina field area of Alberta and other acreage in Western Canada. Its production from holdings in Venezuela and Colombia is considerable.

Texaco, which feels deeply about the matter of sanctity of contract, is no little disturbed about the trend of events in the Mideast. It recognizes that, pending the emergence of sizable new fields outside the Mideast, that area will be crucial to Europe and the United States. Texaco folk reason this way:

Over the past five years demand in this country has grown at a 5% annual rate. But in Europe, over the same period, growth has been on the order of 12%. Five years ago, total Free World demand was about 11 million barrels daily, of which one-third was outside our borders. Five years hence, total world demand should add up to 21 million barrels daily, with fully half of it outside the United States.

Jersey's Far-flung Empire

Not unnaturally, Standard of Jersey, kingpin of the industry, has its eggs in more baskets than any of its competitors. Besides its Aramco and Tapline stake, its Mideast interests include a half interest in the Near East Development Corp. which, in turn, has a 23¾% interest in Iraq Petroleum and its associated companies. Also, in the Eastern Hemisphere it has a half interest in Standard-Vacuum Oil Co., an integrated unit in itself, operating in the Far East, Australasia and Africa.

Jersey carries its investments in, and advances to, these companies at $171.1 million (at close of 1955). This sum was dwarfed by its consolidated net assets in the Western Hemisphere, amounting to $4.1 billion at the end of 1955.

Because it has its eggs in so many baskets, Jersey hasn't felt the Nasser-imposed pinch as severely as others. It is the leading producer of the United States, Canada (Imperial Oil is controlled by Jersey) and Venezuela (Creole Petroleum is 95% owned).

Like the other international oil companies, Jersey is not giving up on the Mideast, although it frankly is worried by the shenanigans of Nasser & Co. Jersey has programmed for 1957 a record billion and a quarter dollars for capital investment and like expenditures in the search for oil and gas. This record figure represents a 20% rise in expenditures by Jersey and its consolidated companies from the 1956 sum. About 80% of the 1957 total is to be spent in this hemisphere, while the balance has been earmarked primarily for Europe. This does not include the expenditures of non-consolidated companies in which Jersey has a 50% ownership or less. Jersey's share of these expenditures, primarily in the Middle East and Far East, should tote up to about $130 million in 1957.

Well-Balanced Socony

Socony Mobil has only a 10% interest in Aramco and Tapline. It has a considerable stake in Iraq Petroleum and an interest in the Iranian consortium. The most important development at Socony within recent years has been its signal success in developing reserves in Canada and Venezuela. From a standing start a few years ago, Socony has built up estimated reserves in Canada of about 150 million barrels. Over a similar span, the company has doubled its crude reserves in Venezuela.

A pattern that emerges in any study of our oil industry is the drilling of more wells, although the cost of finding oil still is going up. Another part of the pattern is the tendency to give prime attention to so-called high-cost areas (Iran was costly enough from another standpoint and even more costly trouble is not to be ruled out around the Arabian peninsula).

Still another part of the emerging pattern has its origin in the oil industry's responsibility to the Free World community, cited at the outset of this study. Nobody in the industry will dispute the wisdom of having alternative supplies – they could be the difference between life and death.

The Mideast source of supply may yet be preserved for the West, but it is difficult to believe that this can be achieved by permitting Nasser and his cohorts to

keep on doing the dirty work of Moscow. Nor can it be attained by primary reliance on a Nasser-controlled canal.

Already the Free World has committed itself to the spending of more than a billion dollars for tankers, a substantial number of them too big for the canal. Only supertankers, up to 100,000 deadweight tons, can make the long route around Africa economical.

Yet another avenue of escape from the native blackmailers and Communist henchmen may be found in new pipelines. There is, as a case in point, considerable enthusiasm within the trade for a pipe that would carry the oil of Iraq (and possibly Kuwait) across Turkey, from whence it would be emptied into tankers at a Mediterranean port. Yet another pipeline, in which the French especially have shown considerable interest, would stretch from Israel's port of Elath on the Gulf of Aqaba to Haifa on the Mediterranean.

There are those in the trade who question the economics of the Israeli pipeline. They note that it would entail lifting oil from the Persian Gulf, moving it by tanker across the Arabian Sea and into the Red Sea (a route followed by users of the Suez Canal, of course). But, they add, at the southernmost tip of Israel the oil would be emptied into a pipe for the journey northward through Israel and then deposited once more in a tanker. Still, nobody in the trade is prepared to quarrel with the need for an offset to Egyptian blackmail. The Israeli pipeline could be a crushing blow to Nasser. END

Du Pont—A Giant Bedeviled By Increasing Competition

(*Continued from page* 583)

World War II and the Korean War are examples.

As one veteran industry executive puts it: "I've never yet known what might be called a 'normal' year — there has always been too much capacity or not enough."

What has happened in previous periods of excess productive capacity has been that prices have been lowered on established lines, with the result that widening markets have given a new spur to demand. At the same time, the chemical companies, which spend more of each sales dollar on research then in most other industries, have reached up on the laboratory shelves for new products, and have increased their attention to developing and marketing new products.

In other words, about once out of every five to seven years, chemical industry profits have gone through what might be called a momentary lag, until growth of newer products has brought another surge in sales volume and profit margins.

Much the same development has been underway lately, and is still going on. In case of some chemical lines; producers late last year belatedly raised some prices, to compensate for rising costs, with such price adjustments to benefit 1957 first-quarter results.

On other chemical materials, prices have been held down, or actually reduced, to stimulate demand. In the case of some plastic material and other lines, price reductions were announced, not so much beccause of excess supplies, but rather because it was recognized that widening demands would be required to absorb indicated future production—and also, perhaps, incidentally, to discourage other companies that had announced plans for expansion in these fields, before they could implement such expansion plans with actual award of new plant-construction contracts.

The company pioneered in and long has been in the forefront in such policies — emphasis on research to develop improved processes and new products, then passing on cost savings in reduced prices on established lines, and development and marketing of new favorably-margined products.

Research vs. Dividends

This policy was enunciated by a du Pont president back in the 1930's when, pressured on dividend payments, he made the often-quoted remark: "It is more important to carry on research than it is to pay dividends."

As is now generally known, out of du Pont's research in the 1930's came nylon, which created an entirely new industry, and other job-creating products which helped pull the country out of the industrial depression.

Other important du Pont new-product developments that followed have included Orlon acrylic fiber, Dacron polyester fiber and, more recently, a new transparent polyester film, trademarked Mylar, which has opened and promises to continue to open new markets in electrical and other industrial uses; also polytetrafluoroethylene resin which has some unique characteristics; Hylene organic isolcyanates, and others.

As a result, more than half of present-day product sales of the company are in products that have been developed in the last 25 years.

Its total sales in this same 25-year period have jumped from $123 million to about $2 billion.

It should be noted, however, that the company's earnings gains in this same period were not without some interruptions, particularly during periods of excess productive capacity.

In 1945, for example, du Pont net income dropped to $77,521,000 from $80,870,000 the previous year, and in 1951 net income declined to $220,744,000 from $307,602,000 the year before. Declines from year before also were shown in 1942 and 1940.

The important question, however, is to what extent du Pont is continuing policies that have proven fruitful in the past, and will they pay off in the future as well as they have in the past.

3% of Gross for Research

As du Pont's sales volume has grown, its attention to research has increased correspondingly. In other words, expenditure of 3 cents out of each sales dollar for research on a present-day sales volume of about $2 billion means a lot more research outlay than 3 cents of each sales dollar on a sales volume of $500 million, such as in 1941.

In 1956, the company spent the record amount of over $70 million on research, or better than 3½ cents out of each sales dollar.

Benefits from this tremendously broad program will be felt (if not last year) in the period still ahead —in lower costs and new products.

A few random instances of recently announced research achievements will indicate that new-product and new-process progress is continuing. Some of these developments will be of only minor benefit to earnings, others may be more important.

(*Please turn to page* 614)

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On April 6, 1956 when the market reached its highest point for 1956, Boeing closed at 81⅜—while General Dynamics closed at 61⅛. Despite the decline that has taken place since then, Boeing has appreciated 45⅞ points — while General Dynamics has gained 26¼ points.

Boeing Airplane was recommended to subscribers at 46—prior to the 2-for-1 stock split in 1954 which marked our cost down to 23. On August 6, 1956, Boeing was split again, 2-for-1, reducing our cost to 11½ for the new shares which are selling at 63⅝—representing 453% enhancement. Cash dividends of $1.50 seem assured for a 13% yield on our original buying price.

Also, we recommended General Dynamics in April, 1954, at 43. It was then split 2-for-1, marking our cost down to 21½. It has recently again been split 3-for-2 further reducing the cost to less than 14⅜. General Dynamics has now reached 58¼—to show 305% gain from our original recommended price. The current dividend yields 10.2% on our cost.

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In cooperation with American Metal Products, for example, du Pont has developed a new fabric to face metal suspension points, which will eliminate need for lubrication and reportedly cut friction by over 50%. A new plastic material called Deirin acetal resin has been developed. Potentially important industrial uses are seen for the new material, though commercial production is unlikely for another two years.

New non-shattering aerosol containers have been made from du Pont "Zytel" nylon resins which are expected to have such uses as packaging cosmetics, pharmaceuticals, anti-perspirants and similar personal items.

Just recently, du Pont which is a major producer of propellant material used in pushbutton packaging, revealed its researchers have developed a new method of making soluble in water, products which previously were non-soluble in water. As a result, use of pushbutton packaging is expected to spread to numerous additional products, boost aerosol sales by 1960 to double present sizable total of over 300 million units – with corresponding increase in demand for propellant material.

In its outlays on plant expansion and modernization, management is aware that in an industry with technological progress recently high and plant obsolescence rate correspondingly high, a company must keep advancing if it is successfully to meet competition and stay in business. In other words, as new plants become obsolete they must be modernized or replaced; also as new processes are developed, and put to use in new plants, they often can provide a producer with a cost advantage over his competitors.

New du Pont plants constructed in 1956 include: A plant at Antioch, Cal., for production of tetraethyl lead and Freon refrigerants; a plant at Tucker, Ga., to produce paints, enamels and thinners; a neoprene synthetic rubber plant at Montague, Mich.; a sulfuric acid plant near Cincinnati which replaces a similar plant at Lockland, Ohio. Completion of these new units, involving start-up costs, added to immediate operating costs, but can help improve margins for the future.

Other new projects announced during the past year include: Modernization of polyethylene resin producing facilities at Sabine River Works, Texas, and addition of a new unit which will virtually double output by early 1958; a plan to double methyle methacrylate monomer capacity at Belle, W. Va., works; plans for a paint factory at Washington Court House, Ohio; an expenditure of over $2.2 million at the Curtis Bay, Md., pigment plant, providing a 20% increase in production of titanium dioxide, and for elimination of air pollution; additional manufacturing facilities at the Kingston, N. C., polyester fiber plant, which will increase output of Dacron in form of staple and tow by about 25%.

In addition, du Pont has announced plans to erect a sodium and clorine plant at Memphis, Tenn.; plans to increase cellophane capacity of its Clinton, Ia., plant by 10 million pounds annually, with an additional 20 million pounds to be added later; plans to enlarge Mylar polyester film production at the Circleville, Ohio, plant by 50%; plans to build a multi-million dollar plant in Richmond for production of high density nylon yarn used in tire cord and other industrial products, with plant capacity 40 million pounds a year, and output scheduled to start latter part of this year.

Still other new projects announced: Plans to build a plant to produce Orlon acrylic staple and tow at Waynesboro, Va., with capacity of 40 million pounds a year; plans for a new silicon plant at Brevard, N. C.; plans for construction of a new plant at Carney Point, N. J., for production of refined and technical grades of CMC (sodium carboxymethylcellulose), a synthetic gum.

It will be noted that expansion in textiles is being concentrated in its own patented synthetic fibers, demand for which has been more consistent and stronger than in older fibers. In outlays in the polyethylene field, it also will be noted, the purpose is, through plant modernization, to utilize new knowledge and place du Pont in a more favorable position.

Company needed no outside financing for its 1956 capital outlays – the expenditures were less than depreciation and retained earnings, and the company was able further to strengthen its cash position.

In reducing dividend payments for 1956 to $6.50 a share on common from $7 in 1955, the company has indicated it is continuing a policy of using retained earnings so far as possible to provide funds for capital outlays. With the new dividend rate, the yield is better than 3½%, at present market price.

Even if we are to assume, however that continuing research progress and new-product development will continue the company in the growth category, this may not mean necessarily that the stock will not deteriorate further, both in market price and price-times-earning relationships, before rebounding back to its traditionally higher rating.

Because of the emotional factor which seems to attach to the popularity of the chemical stocks, swings in the past often have tended to go to extremes.

In 1950, for example, du Pont common sold as low as 9.1 times earnings, in anticipation of the decline in net income which developed in 1951. The following year, it sold as high as 23.5 times earnings and in 1955 up to 31. times earnings.

Right now, stock's popularity like that of other chemicals, in relation to rest of the market, appears to be heading toward lower levels from standpoint of price-earnings.

If, however, what some industry leaders, including research directors in the laboratories, claim – that in chemistry and chemical industry progress "we ain't seen nothing yet" – we may find again that we've waited too long, and "missed the boat." E

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